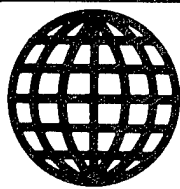


18100

JPRS-CRF-88-008  
31 MARCH 1988



**FOREIGN  
BROADCAST  
INFORMATION  
SERVICE**

# ***JPRS Report***

## **China**

***RED FLAG***

No 1, 1 January 1988

**DISTRIBUTION STATEMENT A**  
Approved for Public Release  
Distribution Unlimited

20000120 042

REPRODUCED BY  
U.S. DEPARTMENT OF COMMERCE  
NATIONAL TECHNICAL  
INFORMATION SERVICE  
SPRINGFIELD, VA 22161

**DTIC QUALITY INSPECTED 1**

**China**  
**RED FLAG**  
No 1, 1 January 1988

JPRS-CRF-88-008

**CONTENTS**

31 MARCH 1988

[Translation of the semimonthly theoretical journal HONGQI of the Central Committee of the Communist Party of China published in Beijing; passages in boldface as published]

It Is Still Necessary To Work Hard To Do Pioneering Work [Commentator] .....	1
Financial Work and Financial Reform [Wang Bingqian] .....	3
On Some Experience in the Development of Science and Technology— Things Learned Through Studying the Report to the 13th Party Congress [Liu Xiyao] .....	8
Actively and Steadily Promote the Contracted Operation Responsibility System [Contracting Question Group of the State Economic Commission's Investigation and Research Office] ....	14
The Shareholding System Is the Best Way To Determine Property Relationships in an Enterprise [Li Yining] .....	18
A Talk on Several Theoretical and Policy Issues in the Shareholding System [Zuo Mu] .....	21
1987: A Year Marked by Low Economic Growth and Instability in the West [Yu Yongding] .....	25
An Art That Follows the March of the Time—Reviewing the Achievements of Television Drama in the New Period [Peng Jiajin, Li Xia] .....	29
A New Subject for Cadres' Theoretical Education [Commentator] .....	33
How To Understand and Correctly Recognize the Fact That China Is in the Initial Stage of Socialism Is the Fundamental Basis for Formulating and Implementing a Correct Line and Policy [Zhang Qihua] .	35
Why Is It Said That Overcoming Ossified Thinking Is a Principal Task for a Considerably Long Time To Come? [Qun Yan] .....	36
Eleventh Lecture of Forum on Socialist Commodity Economy: Wear and Tear, Depreciation, and Renewal of Fixed Assets [Zong Han] .....	37
Sociology and Political Science Should Be Studied as Independent Sciences [Lu Weihuai] .....	41
People Who Stand Firm and Walk Straight at the Crossroads—On Reading the Short Story 'People at the Crossroads' [Ren Fuxian] .....	42

## RED FLAG

### It Is Still Necessary To Work Hard To Do Pioneering Work

HK300716 Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 pp 2-4

[Commentator's article]

[Text] To carry forward the spirit of relying on one's own efforts and working hard to do pioneering work is an important part of the party's basic line in the initial stage of socialism as well as an important condition for implementing this line. In the course of studying and implementing the party's basic line, it is essential to attach great importance to initiating this ideological style and mental state in the whole party and among all people throughout the country.

Relying on one's own efforts and working to do pioneering work is a national spirit of our Chinese nation and a glorious tradition of CPC members. In the long-term extremely hard and bitter revolutionary struggle, it was by relying on the cadres' and people's struggling spirit that our party made itself have confidence, ability, and method to overcome one unimaginable difficulty after another, to be in an invincible position before the powerful enemy, to turn the weak into the strong, and eventually to win victory. We surely have no reason to discard such an extremely valuable ideological style and mental state now. However, some comrades have a misunderstanding: It seems that relying on one's own efforts and working hard to do pioneering work is an outmoded slogan. This situation shows that placing emphasis on carrying forward the spirit of relying on one's own efforts and working hard to do pioneering work in the course of conducting education in the party's basic line is not random shooting but very necessary.

Somehow, man should have a big spirit. The implementation of a correct line and success in the revolutionary and construction causes has always been closely integrated with the struggling spirit of relying on one's own efforts and of working hard to do pioneering work. In the period of democratic revolution, the Seventh CPC National Congress formulated the correct line of new democratic revolution and, at the same time, put forward that it was necessary to foster the self-reliant and hard-struggling spirit of the foolish old man removing the mountains. The proletarian vanguard was to foster this spirit. "God" was moved by this. All people throughout the country were led to carry forward this spirit, going on digging every day. Although the three mountains (imperialism, feudalism, and bureaucrat capitalism) sitting like a dead weight on the Chinese people at that time were high and big, due to the fact that we had a correct line and fostered the spirit of the foolish old man removing the mountains, we built up our revolutionary bases one by one; we wiped out the reactionary army part by part, many small victories added up to a big one, and the three big mountains were finally removed.

We are now implementing the party's basic line in the initial stage of socialism and adhering to one center and two basic points because we want to remove the big mountain of poverty and backwardness. Our tasks are more arduous and complicated than those of removing the three big mountains in the period of democratic revolution. We cannot succeed in our work without the Communist Party members and all people having aroused the national spirit and having worked hard for several decades.

Since the 3d Plenary Session of the 11th CPC Central Committee, our country has entered a new stage of historical development and the outlook in all aspects undergone a profound and big change. However, our country is still in the initial stage of socialism, with a weak foundation and backward productive forces, and has not eradicated its undeveloped state. Developing productive forces, eliminating poverty and backwardness, and building our country into a modern socialist rich, powerful, democratic, and civilized country is an extremely arduous task before us. To achieve this target, we must work hard to do pioneering work for 50 to 60 years. The history of the world shows that the current developed countries have generally passed through a very long period of doing pioneering work and in development. For example, the United States made the "Declaration of Independence" in 1776, and later developed capitalism in the northern part. It did not become a developed country until this century. It did pioneering work and developed for 1 and 1/2 centuries. From the "Meiji Reformation" in 1868 to the middle and later part of the 1960's, Japan passed through a period of approximately 100 years in doing pioneering work and in development. It was then able to attain the level of a developed country. In dealing with the situation in which the bourgeoisie worked hard to do pioneering work, Marx and Engels pointed out: "The need to promote the sale of products has driven the bourgeoisie to rush about all places in the world. The bourgeoisie must settle everywhere, do pioneering work everywhere, and establish ties everywhere." In the period of doing pioneering work, the developed capitalist countries experienced many difficulties and paid a high price and made sacrifices for economic development. At that time, the livelihood of the laboring people was hard, and consumption of the whole society was restricted. As its population is large, its resources relatively poor, and its economy and culture originally very backward, even if we had not made "left" mistakes and it had been plain sailing, our country cannot but undergo a course of working hard to do pioneering work for a fairly long period. This is not a matter of whether people are willing or unwilling, but is a necessity determined by objective historical conditions. If we understand this necessity and are mentally prepared for doing pioneering work for a long period, we can then acquire freedom. Comrade Deng Xiaoping has, therefore, repeatedly exhorted us: "We must always remember that as our country is big, its population large, and its foundation weak, only by struggling hard for a long period can we catch up with the

level of the developed countries." "To go in for four modernizations, China must honestly work hard to do pioneering work." ("Selected Works of Deng Xiaoping," pp 224, 221) After the 13th CPC National Congress, while receiving foreign visitors on several occasions, Comrade Deng Xiaoping emphatically pointed out: Our road is still very long and we must still struggle hard and be cautious and conscientious for a long period.

Some comrades think that reform and opening up do not concern and are antagonistic to self-reliance and working hard to do pioneering work. This is a misunderstanding. In fact, both of them supplement each other. On the one hand, to foster the spirit of relying on one's own efforts and of working hard to do pioneering work, it is essential to carry out reform and opening up, because only by carrying out reform and opening up can we really open up a path for carrying forward the spirit of relying on one's own efforts and of working hard to do pioneering work and provide an arena and conditions. Under the old system, people "ate from the same big pot" and pursued equalitarianism, the grass roots and enterprises had no decisionmaking power, the initiative of the laborers was not great, and the grass roots' and the masses' spirit of relying on one's own efforts and of working hard to do pioneering work was seriously fettered; only by carrying out reform and opening up can we mobilize the force of this spirit and bring it into play. On the other hand, to do a good job in reform and opening up, it is also imperative to carry forward the spirit of relying on one's own efforts and of working hard to do pioneering work. Without this spirit, we cannot do a good job in reform and opening up. Reform of our country is all-round reform involving all spheres, including politics, economy, and social life, and is extremely complicated and arduous huge social engineering. We are familiar with the old system, but as for how to develop the planned commodity economy and build socialism with Chinese characteristics, we are not familiar, classic Marxist writers left us no ready replies, and we cannot indiscriminately copy the modes of other socialist countries. We can only carry out creative exploration under the guidance of the Marxist basic principles and in the light of China's realities. Economic structural reform and political structural reform are very complicated. As the measures for reform in all aspects are mutually related and mutually restricted, a slight move in one part may often affect the situation as a whole. If any important measure for reform is adopted, it will cause a chain reaction; affect the readjustment of the interests of the state, collectives, and individuals; and involve the personal interests of everyone. Practice tells us that when reform just commenced, the problems were relatively clear and could generally be resolved relatively easily; when reform develops more deeply, the problems are often more complicated and more difficult to resolve. In particular, when the new and old systems now coexist, the difficulties in reform are aggravated. We have gained some experience in opening to the outside world but, on the whole, we are still in the initial stage. In the course of further opening to the outside world, we shall surely and

continuously encounter new problems and contradictions which we must resolve. The course of reform and opening up is, in a sense, the course of doing pioneering work; namely, the course of reforming the old ossified system and building a new socialist system with Chinese characteristics. This course is complicated and protracted, fraught with difficulties and dangers, and is of great historical significance. This requires us to have courage and the spirit of working hard to do pioneering work, to squarely face contradictions and difficulties, and to indomitably overcome difficulties.

In fact, all places and units in which reform and opening up is carried out well have a common characteristic: They have developed through working hard to do pioneering work. The history of their development is a history of working hard to do pioneering work. Many specialized households have gone in front of the rural commodity economy development force. They have got rich first, but as pioneers, at each step they advance, they must overcome the obstructions and difficulties caused by the force of habit and objective economic conditions. Over the past few years, many township and town enterprises have developed very quickly and scored very great achievements, but none of them has not been pounded time and again in the acute market competition and they can even only strive for existence and development among competitors. The external conditions of many large and medium-sized enterprises that have done well are almost the same as those of the other state-run enterprises, and these enterprises have scored achievements in the course of overcoming all difficulties and surmounting all obstacles of the old system. All this shows that it won't work if we go in for modernization and develop the socialist commodity economy without adhering to the general principle of reform and opening up; nor will it work without implementing the spirit of relying on one's own efforts and of working hard to do pioneering work.

The key to fostering the spirit of relying on one's own efforts and of working hard to do pioneering work lies in leadership organs and leading cadres at all levels taking the lead. If our leadership organs and cadres call on the lower levels and the masses to rely on their own efforts and to work hard to do pioneering work but do not set an example and play the role of vanguard and if they say one thing and do another, it can only corrupt social values and cannot promote the establishment of good social values. Many cadres and organs, however, seem to have forgotten this in recent years. Their malpractices of pursuing ostentation, extravagance, demonstrations of and competition in luxuries, and waste have gradually come into vogue. The leadership organs of some poor places even used funds for helping the poor and financial subsidies to build high-class guesthouses. The masses are very dissatisfied with these phenomena. It is necessary to resolutely take measures to correct them.

In the previous period when the "left" mistakes were committed, hard struggle was distorted as being content with poverty and rich and varied life was opposed. This

misrepresentation has been clarified after order was brought out of chaos. We are now advocating that the spirit of relying on one's own efforts and of working hard to do pioneering work should be carried forward and that the people's livelihood be improved and that these are not contradictory but consistent. Reform, opening up, and the four modernizations are, in the final analysis, to enhance the people's living standard. To enhance the living standard, it is first necessary to devote ourselves to the development of production and to raise economic results. The people's living standard is, in the final analysis, conditioned by the level of the productive forces. Regarding production and consumption, production conditions consumption and consumption counteracts production. Only with developed production are we likely to have developed consumption. The level of the productive forces of our country is low and its population large. The level of average per capita possession of the means of production of the whole country occupies a relatively low position in the world. The amount of material wealth newly increased in our country each year is not large, but its population increases relatively quickly. In recent years, its population has increased by some 10 million a year. The goods and materials newly increased each year must first be used to meet the needs of the population newly increased and then used to improve the people's livelihood. This determines that the average per capita living standard of our country will not be high for a fairly long period of time and cannot be improved very quickly. In recent years, the people's livelihood of our country has been markedly improved, but swollen consumer wants have also really existed. From 1984 to 1986, the urban residents' per capita living expenditure income increased by an average of 16.3 percent a year, and this increase was greater than that in national income in the same period, which increased by 11 percent; the workers' per capita actual wages (including subsidies for the price of meat and so on) increased by an average of 9.4 percent, and this increase exceeded that in labor productivity in the corresponding period, which increased by an average of 7.2 percent a year. Swollen consumption funds have affected accumulations and key capital construction, brought about difficulties to the deepening of reform, done nothing good for improving the people's livelihood, and can only result in the shortage of commodity supply, tight market, and inflation of prices. The people cannot get their deserved material benefit. We can, therefore, direct and readjust the consumption structure and advocate scientific and rational consumption according to the level of production development at the present stage.

In his report to the 13th CPC National Congress report, Comrade Zhao Ziyang pointed out that the initial stage of socialism is "a stage in which the whole people rise with force and spirit, work hard to do pioneering work, and realize great Chinese national rejuvenation." Self-reliance and working to do pioneering work is both a policy to which we must protractedly adhere and an ideological style and mental state which we must advocate for a long period. On this account, on the one hand,

we must persistently conduct ideological education for a long period to make the spirit of relying on one's own efforts and of working hard to do pioneering work become the order of the day; on the other hand, we must correspondingly formulate the necessary system and laws and use the system and laws to guarantee the implementation of this policy. For example, the big waste in the spheres of production, circulation, and capital construction and the squandering of money in social group consumption is closely related to the old system, particularly to the serious bureaucratism and unhealthy trends of some party and government organs. Only by carrying out reform and formulating the necessary system and laws can we basically resolve such problems. At present, in the course of conducting education in the party's basic line, we can really advocate the spirit of relying on one's own efforts and of working hard to do pioneering work by integrating this spirit with the characteristics of all trades and professions. Party and government leadership organs and leading cadres must link advocating the spirit of relying on one's own efforts and of working hard to do pioneering work with overcoming bureaucratism and correcting unhealthy trends, and enterprises and institutions must persistently struggle hard, build the country, do everything through hard work and thrift, take the necessary measures to prevent abuse of the right of distribution vested by the state, and prevent swollen consumption funds. All places and units must strictly control the scale of capital construction, control the purchasing power of groups, really stop construction projects that are inefficient and beyond the ability of the state, and curb all phenomena of extravagance and waste.

#### **Financial Work and Financial Reform**

*HK290511 Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 pp 5-10*

[Article by Wang Bingqian [3769 0014 0051]]

[Text] Financial work and financial reform are problems of common interest to all. Now I would like to air my views on these two problems in combination with the study of the 13th Congress documents.

#### **I**

Over the last 9 years since the 3d Plenary Session of the 11th CPC Central Committee, by relying on the common efforts of localities and other departments and under the leadership of the CPC Central Committee and the State Council, cadres, staff members, and workers of financial and taxation departments and units throughout the country have done a great deal of work to ensure the smooth development of economic construction, all undertakings, reforms, and opening up to the world. They have made marked achievements in this respect.

—State revenues have registered a large increase on the basis of the development of production and the expansion of circulation. State revenues rose from 112.1

billion yuan in 1978 to 218.4 billion yuan in 1986, almost a 100 percent increase. Income from extrabudgetary funds used rose from 34.7 billion yuan to 173.7 billion yuan, over a fourfold increase. The two increases averaged 170 percent. Thus, our country has witnessed a large increase in its financial resources.

—We should concentrate our financial resources on key projects, according to the economic development strategy laid down by the state. Agriculture, energy, communications, science, and education are strategic key points in China's economic development. The state budget for these amounted to 460 billion yuan from 1979 to 1986, about 40 percent of the financial expenditures for the corresponding period. Of the budget, 116.7 billion yuan was for agricultural use, 141 billion yuan was for the construction of energy and communications basic facilities, and 201.6 billion yuan was for scientific and educational causes. This played a very positive role in assisting economic structural adjustments, supporting the construction of agricultural and basic facilities, promoting the development of scientific and educational causes, and increasing the country's economic sustaining power.

—The large amount of funds allocated by state finances have basically resolved the problems left over by the "10 years of turmoil" in the peasants' production and the urban and rural people's livelihood. Since 1979, the state has raised by a large margin the purchase prices of agricultural and sideline products, reduced rural taxation, made employment arrangements, raised the wages of employees, exercised the award system, issued subsidies for increased prices, and built houses for staff members and workers. All this has helped improve the livelihood of the urban and rural people. By 1986, the state had spent 607.8 billion yuan on these programs.

—State financial departments have exercised the party's policy of opening up to the world. They have done a great deal of work in utilizing foreign capital and developing economic and technological exchanges and cooperation with foreign countries. Over the last 9 years, the loans directly provided for state finances by some foreign governments, international monetary organizations, and civilian financial groups have amounted to \$19.586 billion. This amount of money has been used for construction projects and importing advanced technology and equipment. This has played a positive role in raising the country's technological level and speeding up its economic development. In addition, state financial departments have provided active support for foreign trade, tourism, labor service exports, and technology exports, thereby increasing foreign exchange income and giving powerful assistance to production and construction in the country.

—Following the development of financial and taxation work, a financial and taxation cadres contingent suited to financial and economic management in the new period has emerged. This contingent has grown up over

the last 9 years and its quality is improving. Moreover, microcomputer technology and other modern management means are being introduced to financial and taxation work, and preparations are being made for the installation of a nationwide financial and taxation information system.

## II

The achievements in financial work over the last 9 years are inseparable from the conscientious implementation of the line, policies, and principles formulated since the 3d Plenary Session of the 11th CPC Central Committee. Nor can they be separated from the work of bringing order out of chaos and carrying out reforms and opening up to the world.

Over the last 9 years, financial and taxation departments have done a great deal of work in financial and taxation reforms as well as in economic reform in other fields. These reforms are mainly as follows:

—These departments have adjusted the relationship of profit distribution between the state and enterprises, thereby greatly increasing enterprises' vitality. In 1978, the state began to introduce a responsibility system to state-owned enterprises requiring them to assume sole responsibility for their funds, profit retention, and the substitution of tax payments for profit delivery. It has also adopted a number of measures, including reducing taxes and allowing enterprises to maintain a larger percentage of profits, thus improving enterprises' ability to allocate their financial resources and expanding their autonomy. In 1986, profit retention in state-owned enterprises amounted to 48.9 billion yuan, of which profit retention in state-owned industrial enterprises was 24 billion yuan, a rise from 3.7 percent in 1978 to 42.2 percent in terms of its proportion to the profit made in the corresponding year; if the portion for the loan repayment before tax was added and the fund for the construction of energy and communications projects was deducted, the percentage should be 50. In addition, the state has raised the depreciation rates on enterprises' fixed assets and allowed enterprises to use the portion of depreciation funds originally controlled by central and local governments. Also, the state has adopted a number of preferential measures on loans and subsidies for technical transformation.

—These departments are reforming the budget management system, thus bringing into better play the initiative of local financial departments. In 1980, they began to introduce a budget management system characterized by "assuming graded responsibility categorizing taxes, as well as assessing revenues and expenditures." In terms of management, financial policies, and funds, they have also given special consideration to minority nationalities regions, underdeveloped regions in Yunnan, Guizhou, and Qinghai Provinces, the 4 special economic zones in Guangdong and Fujian Provinces, as well as the 14 open coastal cities. In addition, financial departments at the

township level have been set up in most regions throughout the country to cope with rural reforms in the new situation. Budgetary local financial resources throughout the country totaled 110.7 billion yuan by 1986, 50.7 percent of the state's budgetary financial resources.

—They are reforming the taxation system and strengthening the role of taxation as an economic lever. To cope with the development of the planned commodity economy and the adjustment of the macroeconomy, in 1980 they began to adjust tax categories and tax rates on industrial and agricultural products. Subsequently, they also classified industrial and commercial taxes into product tax, business tax, increment value tax, and salt tax; reduced collective enterprises' income tax; and started the collection of new taxes such as resources tax, construction tax, state-owned enterprises' income tax, bonus tax, individual income adjustment tax, as well as industrial and commercial households' income tax, thus allowing the country's taxation to shift from single taxation to multitier, multilink, and multicategory taxation.

—They are reforming the fund allocation system and fund management methods, thereby improving the utility of funds. For a long period of time in the past, financial expenditures were based on gratuitous fund allocation, which lacked explicitness on the economic responsibility of both sides involved. Therefore, the use results of funds were not ideal. To change this situation, in 1980 the state began to "substitute loans for fund allocation" in terms of investment in capital construction. For units that have the ability to repay and for a portion of agricultural funds, the state set up a working fund system so as to give an impetus to financial credit. In administrative departments and other institutions, the state implemented the system of assuming sole responsibility for their spending. Institutions having the necessary conditions began to be managed like an enterprise. This put an end to the practice of gratuitous fund allocation and improved the use results of funds.

—These departments encourage the introduction of foreign capital and technology and implement the policy of opening up to the world formulated by the central authorities. During the last few years, they have drawn up laws on income tax for Sino-foreign joint ventures, income tax for foreign-capitalized enterprises, individual income tax. They have taken preferential measures to reduce the income tax of individuals working in Sino-foreign joint ventures, foreign-capitalized enterprises, and Overseas Chinese-capitalized enterprises. They have signed or initialized agreements on avoiding duplicate taxes with 12 nations, including Japan, Britain, France, the United States, the FRG, Belgium, and Czechoslovakia. They are using low-interest loans provided by some foreign governments and international monetary organizations to issue government treasury bonds in foreign countries. All this has effectively ensured the implementation of the policies of opening up to the world and using foreign capital.

—In the course of financial and taxation reforms, they are cooperating with other departments concerned in reforming the systems of prices, wages, science, technology, and education; they are also providing effective financial and legislative support for them. From 1979 to 1986, they promulgated over 1,900 ordinances on finances, taxation, as well as financial and accounting work, all aimed at bringing about good results in financial reform. In addition, they abolished some 2,000 obsolete ordinances that were promulgated in the early days of the founding of the PRC, thus putting an end to the situation in which ordinances did not match each other and even contradicted each other.

Taken as a whole, financial reform over the last 9 years has not been small, financial work has been very active, and achievements in this work have been remarkable. A fundamental change has taken place in financial management, which used to be characterized by excessive and rigid control. In the past, many people were afraid to use foreign capital and were in the habit of secluding China from foreign nations. Now this situation has changed greatly. In the past, enterprises were accustomed to "eating from the big pot" of the state, which in return exercised a "monopoly" over production and construction in disregard of economic results and social benefit. This is also undergoing a certain change. During the last 9 years, the country's financial strength has been growing faster than it ever has before. This period has also been imbued with the spirit of reform and exploration. Work over the last few years has provided excellent conditions for the gradual formation and perfection of a socialist financial system with Chinese characteristics.

Undoubtedly, we should not be content with our achievements, for we are facing a large number of problems and difficulties. The new structure is replacing the old, and many systems are still imperfect. Therefore, all sorts of tax evasion, losses, and waste will occur from time to time. The tendency of being overanxious for quick results in economic work has yet to be overcome, the aggregate social demand is still in excess of aggregate social supply, and the state's financial deficits for several consecutive years have yet to be settled. Following the changes in the economic situation, further efforts should be made for the exploration of new financial management methods. Our leadership and work methods cannot cope with the development of the situation. Our financial and taxation departments are poor at predicting new situations and problems and have not made adequate efforts to study problems. They are very passive in some areas of work. We should not take these problems lightly but should make up our minds to solve them in the course of our work.

### III

Reforms are a force that promotes our construction and work. All of our reforms should be aimed at developing the socialist economy. The 13th CPC Congress drew up a strategy for China's economic construction to proceed

in three steps. The second step is to increase the GNP by 100 percent by the end of this century so that the people can live a better-off life. Obviously, this second step is the most important link. Financial work must be aimed at achieving this target.

The urgent problems facing financial and taxation departments are how to fulfill this glorious and arduous historical task, how to explore financial resources, how to rationally adjust the spending structure, how to economize on state funds, how to alleviate the contradiction between demand and supply of funds, and how to relax the tight situation in financial expenditures. As I see it, the fundamental way to solve these problems is to carry out reforms. Summing up the practice of financial and taxation reforms over the last 9 years according to the line, principles, and policies laid down by the 13th CPC Congress, we should draw up the guidelines for future financial and taxation reforms as follows: Based on the theory concerning the initial stage of socialism and aiming at developing the social productive forces, we should strive to improve our economic results and social benefits, build the country through diligence and thrift, develop the economy, ensure supply, and maintain a balance between revenues and expenditures; on the basis of perfecting enterprises' operational mechanisms and promoting the work of opening up to the world, we should explore more financial management methods, open up avenues for financial resources, and consolidate and increase the country's financial and economic strength; we should correctly distribute financial funds, introduce all types of distribution forms, exercise stricter supervision and management, and achieve the best possible results in the use of financial funds; in the course of straightening out the relationships of economic interests between central and local governments, between the state and the enterprise, and between individuals, we should make efforts to perfect the macro-financial control system and turn the existing financial system into one that operates well, can produce good economic results, and embodies enterprising spirit. In addition, financial work should be carried out in close coordination with economic structural reform to support production and construction.

According to these guidelines, financial and taxation reforms for the years to come should be aimed at the following targets:

1. According to the principle of the separation of enterprises' duties from their responsibilities and of the separation of their ownership from operational rights, the reforms should be aimed at forming a financial work system that corresponds to the needs for the development of the planned commodity economy and to the formation of enterprises' operational mechanisms. As a social administrator, the state must collect transaction and income taxes from state-owned enterprises; as the owner of assets in units under ownership by the whole people, the state has the right to enjoy a portion of the profits of state-owned enterprises. Therefore, from a

long-term viewpoint, tax payments and profit delivery should be allowed to coexist for state-owned enterprises, and all types of contract systems should be adopted over their after-tax incomes. In 1987, the state began to exercise the system of contracted responsibility for the operation of state-owned enterprises, putting income and regulatory taxes in the framework of the responsibility assumed and exercising management aimed at increasing profits. This is being perfected and should be carried out well.

2. The reforms should be aimed at setting up a management system on state assets, which is beneficial to the optimization of social benefit and the use results of funds. It is necessary to exercise a state fund management system to ensure the increment of the value of state funds and to promote the development of the socialist state-owned economy. Corresponding management organs should be established to examine the changes and increments of funds in units using state-owned capital and to prevent them from violating state financial regulations and law.

3. The reforms should be aimed at setting up a scientific taxation system that can play a macro-regulatory role and ensure state financial strength. A composite taxation system comprising exchange and income taxes should be formed. This system should embody the principle of competition and the industrial policy. In addition, it is necessary to perfect the local taxation system and make a distinction between the taxation management rights of central and local governments.

4. According to the principle of exercising uniform leadership, carrying out graded management, and ensuring the leading position of central finances, the reforms should be aimed at setting up a financial management system that tallies with the rights of governments at all levels to manage daily affairs and financial work. They should be aimed at setting up a graded budget management system. The central budget should be separated from the local budget, and each should assume responsibility for organs of power at the corresponding level and strive to maintain a balance between income and spending. It is necessary to formulate state budget law and stress the seriousness of exercising the state budget. Moreover, the single budgetary system should be changed into a double budgetary system.

5. The reforms should be aimed at setting up a financial credit system and a state bond operational system. These two systems must be suited to the development of the socialist commodity economy and the needs for opening up to the world. This is a means to alleviate the shortage of funds. Following the development of the planned commodity economy and the expansion of the socialist market, engaging in financial credit undertakings has become very important. We should pay full attention to and strengthen this work. We should also open a state



bond market and, if necessary and possible, sell state treasury bonds to the people in the country and abroad so as to expand the avenues for funds.

6. The reforms should be aimed at setting up a scientific, rational, and economical expenditure management system. According to the principle of simplifying administration, practicing economy, and improving work efficiency, the habit of "monopolizing everything" and "applying a single solution to diverse problems" should be changed, the existing financial expenditure system should be reformed, and rational expenditure limits and standards should be set. A quota system should be introduced for administrative spending, and the budgetary responsibility system should be improved. Institutions with repayment ability and good economic results are required to pay compensation for the use of financial funds. Where conditions allow, institutions should be managed in the manner of running enterprises. The house rent system should be gradually changed. Stricter management should be exercised over consumption funds, the spending of, as well as subsidies and allowances for, social groups, total wages, and the proportion of administrative expenditure to the state budget.

7. The reforms should be aimed at perfecting the macroeconomic regulatory system. A composite financial plan should be drawn up according to the principle on exercising separate management over and maintaining a balance between budgetary and extrabudgetary funds. All forms and means should be adopted to guide extrabudgetary funds in meeting the urgent needs of the state. It is necessary to formulate new financial regulations, strengthen financial legislation and supervision, and exercise stricter financial law and discipline; it is necessary to form a financial information feedback network based on modern science and technology; and it is necessary to build a financial cadre contingent that can persist in reforms and is professionally competent, evenhanded in dealing with matters, and honest in performing official duties, so as to provide excellent service for the healthy development of the economy.

The above targets in financial reform are just our tentative ideas. Further study is necessary in order to formulate a corresponding financial reform plan and to implement it in stages.

#### IV

Financial and taxation reforms are an important component of economic structural reform and are a systems engineering as well. They involve reforms in other fields, including the macroeconomic and microeconomic fields. Practice over the last few years has proved that no reform can be carried out without financial support or the cooperation of financial legislation. Apart from financial and taxation reforms, other jobs in the financial field are also very arduous, such as formulating a financial development strategy, working out a financial resources exploitation program, adjusting the revenue

and expenditure structure, and turning a financial deficit into a gradual balance. All this requires our further exploration and practice. Therefore, we should unify our understanding and be good at sizing up the situation, because financial work is arduous, the new system is replacing the old, and many problems will arise in the course of reforms.

First, we should use reforms to measure the overall situation, be bold in carrying out reforms, and persist in the enterprising spirit. In addition, we should also carry out meticulous investigation and study, improve our ability to predict, and work out all types of practical reform programs according to the capacity of various fields. In the course of reforms, whenever a decision can be made on something, it must be made without hesitation or delay in order to avoid falling into a passive position. We should take an active attitude toward all reforms, including financial and taxation reforms and reforms in other fields.

Second, we should carry out financial reform in coordination with the formulation of a financial development strategy and properly handle the relationship between financial reform and financial balance. There is generally a period of time before we can benefit from the investment made in construction and reforms. During this period, financial departments have to bear a certain burden. Therefore it is inevitable for temporary deficits to appear. Because the capacity of state finances is limited, deficits should not be excessively large, and the duration should not be too long. Otherwise, there will be high inflation, the balance between aggregate social supply and demand will be ruined, and the coordinated development of the national economy will lose its basic guarantee.

Third, we should carry out financial reform in coordination with the adjustment of the financial revenue and expenditure structure and correctly handle the relationship between financial centralization and decentralization. In financial reform over the last few years, the financial rights of localities and enterprises have been expanded so as to increase their mobile financial resources. This is necessary. However, financial resources should not be excessively decentralized, because this is not good for ensuring the meeting of overall needs or for carrying out regional regulatory work and does not conform to the long-term interests of the state. Therefore, efforts should be made to improve economic results, explore new financial sources, and appropriately centralize financial resources. In other words, the proportion of revenues to national income should be gradually raised, as should the proportion of central revenues to national revenues. We are convinced that we will make greater progress in financial and taxation reforms and that the financial situation will improve year by year, as long as we unify our understanding, persist in reforms, and implement the spirit of the 13th CPC Congress in our work.

V

Stabilizing the economy and deepening reforms are the central issues of economic work in 1988 and the central tasks of financial work as well. Now the situation throughout the country is good. The 13th CPC Congress has laid down the basic line for the initial stage of socialism and pointed out the direction ahead. In coordination with other reforms, economic reform in 1988 will focus on perfecting the system of contracted responsibility for the operation of enterprises. The deepening of these reforms will help improve our economic results and provide favorable conditions for expanding our financial sources and increasing income. Also, the movement of increasing production and practicing economy and increasing revenues and reducing expenditures will continue in 1988. People in all fields will further tap their potential, and production and revenues will continue to increase on a stable basis. There are many favorable conditions for our financial work in 1988. We should have more confidence, be determined to overcome difficulties, make full use of these favorable conditions, turn unfavorable factors into favorable ones, work hard to fulfill our financial tasks, and strive to maintain a basic balance between revenues and expenditures.

The work for 1988 is arduous and the tasks are heavy. We should do a good job in the following three aspects:

First, we must carry out the "double increase, double economy" movement more profoundly. In 1987, the country made great achievements and also gained much experience in carrying out the "double increase, double economy" movement. We should deepen the movement on this basis and make a breakthrough in 1988. The movement should focus on improving enterprises' economic results, increasing revenues, controlling expenditures, and combating waste and extravagance. We should make sure that grass-roots units fulfill the 1988 targets for reducing production costs, cutting management fees, making up deficits, and reducing administrative spending. These should be taken as important factors for assessing the results of the "double increase, double economy" movement and the system of contracted responsibility for the operation of enterprises.

Second, we must push forward all types of reforms, with the aim of perfecting the system of contracted responsibility for the operation of enterprises. Most enterprises now exercise this system. In the course of exercising the system, we should focus our work on improving enterprises' operational mechanisms, on introducing to factories the system of settling accounts through banks, and on exercising stricter financial management and supervision. Enterprises exercising the contract system should also fulfill these targets apart from delivering their taxes and profits to the state. Financial, taxation, and auditing departments, as well as departments in charge of enterprises, should assist enterprises in improving accounting in their workshops, popularizing the use of advanced

cost management methods, and enhancing their operational and managerial levels. Moreover, financial departments should cooperate with the departments concerned in conducting research into the reforms of systems concerned with investments, goods supply, foreign trade, prices, and wages.

Third, we must put into effect the plan on revenues and expenditures. Whether the 1988 plan on revenues and expenditures can be fulfilled depends on whether revenues are ensured and expenditures are controlled. Therefore, once the budget is fixed, central and local governments should not demand extra money for spending, except when the need is urgent. In the course of implementing the budgetary plan, all financial and taxation departments are required to devote major efforts to consolidating and expanding their financial sources and to exploring new financial sources. Doing a good job in this respect will help increase revenues in 1988 and provide excellent conditions for a stable increase in revenues. Financial departments at the higher level should assist county and township finances in supporting production. It is necessary to exercise stricter management over taxation and enterprises' financial work and to prevent all sorts of tax evasion. There is much potential to be tapped in this respect. Expenditures in localities and departments should be strictly controlled. They should be maintained at or below the 1987 level except for subsidies issued to cover rising prices. We should not eat next year's food or anticipate our income. We should establish an information feedback and analysis system to strengthen financial supervision and improve the use results of funds. It is strictly forbidden to use public funds to issue bonuses, subsidies, or material awards or to go sightseeing or give dinners for friends and relatives.

Improving the financial and taxation cadres' ability to understand and apply policies and their professional quality is an urgent task in our financial and taxation work. Financial and taxation departments at all levels should put this task on their agendas. Financial and taxation cadres are now engaged in the study of the 13th CPC Congress documents. This study must proceed well. We should use the line and principles laid down by the 13th CPC Congress to sum up financial work over the last 9 years and to study how to make a good job of future financial work. So long as cadres on the financial and taxation fronts persist in reforms, dare to make explorations, have an enterprising spirit, and do their work in a down-to-earth manner, we will certainly be able to overcome difficulties in financial work and forge ahead continuously.

**On Some Experience in the Development of Science and Technology—Things Learned Through Studying the Report to the 13th Party Congress**

40050143c Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 pp 11-16

[Article by Liu Xiyao [0491 6007 1031]]

[Text] The report to the 13th Party Congress placed top priority on the development of science and technology in economic development strategies. It also pointed out:

"Progress in science and technology and improvement in the level of management will basically determine the progress of our country's modernization. It is a great task in the vitalization of the nation." While studying the report to the 13th Congress, I summed up the practice of the development of our country's science and technology, in particular of defense science and technology, since the founding of the PRC, and I came to understand the following points:

#### **Correct Guiding Ideology Is of the Utmost Importance**

In the early period after the founding of the country, the party Central Committee placed great stress on science and technology and placed importance on the work of bringing into play the role of our country's scientists and technicians as well as fostering new intellectuals in great numbers. At the same time that it was strengthening education in the schools, it sent a large number of cadres and students to the Soviet Union and Eastern Europe to study, and invited Soviet and Eastern European experts to help our country in carrying out construction. Also, through various avenues it tried to get the scientists and technicians who had studied in the West to return to the country, and took a series of major decisions in developing our country's science and technology.

In January 1956, Mao Zedong pointed out: "Our country's people should have a long-range plan and must, over several decades, strive to change our country's backward economic, scientific and cultural situation, so as to quickly reach advanced world standards." ("Selected Readings of Mao Zedong's Works," last volume, p 718) Subsequently, Zhou Enlai, representing the party Central Committee, issued the call for a "major advance toward modern science and technology," and in our country's science and technology fields there appeared a scene of thriving development. However, this fine situation did not last long and up to the 3d Plenary Session of the 11th CPC Central Committee, it was as Comrade Deng Xiaoping pointed out: "We did gradually develop but overall, for a long period, we were in a situation of stagnancy. In a few things, like the atomic bomb and the hydrogen bomb, we were successful and in the development of intercontinental missiles we also achieved success, but the people still lived in poverty." ("Major Statements by Comrade Deng Xiaoping," p 21) Through comparing history before and after the 3d Plenary Session of the 11th CPC Central Committee, we can clearly see that whether or not the party's guiding ideology is correct is of utmost importance in determining whether science and technology can develop quickly.

**We must establish a system in which science and technology and social needs are closely integrated.**

In a letter to F. Borgius, Engels noted: "As soon as society has a technological need, that need will promote the advance of science faster than could 10 universities." ("Selected Works of Marx and Engels," Vol 4, p 505)

Engels was of course not slighting the role of universities, but was summing up scientific and technological development as social need, and noting that he considered that social need is a strong motive force in scientific and technological progress. This is a scientific conclusion which fully accords with the actuality of the scientific and technological development of the world and of our country.

Since World War II, with the threat of the cyclical crises of the capitalist world, some Western countries have in accordance with their social needs, found a way out through science and technology. Although this cannot resolve the basic contradictions innate in a capitalist society, it results in the scientific and technological field in the world changing with each passing day. In the international situation of the 1950's and 1960's, in order to protect the security of new socialist China, our country also realized widely-recognized achievements of a world level in the area of high-technology defense weaponry and related fields. However, at the same time, the improvement of the scientific and technological levels of other areas in our national economy was not swift and much industrial and agricultural technology was long stagnant. Some industrial products remained unchanged for decades and there was very little improvement in the people's lives.

In seeking out the reasons, we find that the major one was that beginning in the latter part of the 1950's and under the guidance of erroneous "leftist" ideology, we divorced ourselves from historical materialism, paid no attention to the objective laws of social development and did not shift the major task of the people of the whole country to the correct line of centralizing our strength to develop the social productive forces. The faulty and ossified economic structure which thus resulted in economic construction checked social demand and affected and fettered the development of the productive forces. The highly-centralized planned management, the vertically and horizontally divided administrative management, the self-contained national defense industry, the closed scientific and technical systems, and the situation whereby science and technology and the training and use of personnel was to quite a great degree divorced from social need meant that the development of science and technology in many areas lacked due motivation and pressure. This obstructed the spreading and improvement of scientific and technological achievements. Some scientists and technicians were unable to fully bring their skills into play and thus these abilities were not fully employed. In addition, there was the disaster of the "Cultural Revolution" and as a result, in all but a few areas, our disparity with the rest of the world in terms of scientific and technological level grew increasingly large.

Since the 3d Plenary Session of the 11th CPC Central Committee, following a shift in the overall focus of work in our country and the implementation of the policies of

reform and opening up, social demand has grown dramatically. If we are to guarantee the sustained development of our national economy at a fairly high speed we need to rely on the development of science and technology. This social need has resulted in our scientific and technological undertakings again radiating a vital vigor. Under the guidance of the spirit of the 13th Congress, we must deeply carry out reforms of the scientific and technological systems as well as the education system and form a mechanism in which science and technology are closely integrated with economic development and social need, so as to promote the speedy development of science and technology.

**We must place the vitalization of the national economy in prime position.**

Practice has told us that scaling the peaks of science and technology requires that we have a certain modern industrial base. In 1956, on the basis of the imminent completion of our country's First 5-Year Plan, the central authorities put forth a call for a major advance toward modern science and technology, and successively stipulated a series of plans for scientific and technological development related to the national economy and national defense construction. At that time our country's industrial base could not fully satisfy the demands of the plans and many materials, much equipment and instruments were only provided through assistance from the Soviet Union and Eastern Europe.

After foreign assistance was discontinued, if we were to continue to improve our high-technology national defense weaponry, we could only rely on our own efforts. The central authorities promptly readjusted the plans for developing nuclear weapons and guided missiles and strengthened resources. They also formulated plans which provided the conditions for realizing the above-mentioned programs. Comrade Deng Xiaoping chaired the Central Committee Secretariat meeting and heard and approved the plan put forward by Comrade Nie Rongzhen for the new technological materials necessary for developing high-technology national defense weaponry. Subsequently, plans were formulated for developing new instruments and large-scale machinery necessary for producing special materials. The realization of these plans not only guaranteed the requirements for developing high-technology defense weaponry, but we were able to rely on our own strengths, build up an industrial and scientific research base of a reasonable level and scale in remote regions and raise our country's industry to a new technological level. The high technology spurred on the development of the base, but if there had not been the appropriate improvement of basic industry, there would not have been the high technology. If the basic components of those things which go up do not meet standards, those things will certainly come down.

At present we are concentrating our strengths in order to carry out modernization. This is of benefit in improving the people's lives, in enriching the nation and in

strengthening national defense and is also of benefit in broadly improving the level of science and technology. The report to the 13th Congress clearly pointed out that the primary task of scientific and technological work is vitalizing the national economy. This is a pressing demand in realizing modernization and is the inevitable conclusion when summing up historical experiences and lessons. We must, without losing the opportunity and as we develop high-technology research, strengthen motivation and pressure for practical scientific and technological achievements in all fields of industry and agriculture, and speed the vitalization of our country's basic industry so as to accord with the needs of socialist modernization.

**We must systematically combine self-reliance with study of foreign countries.**

The 13th Congress' action in firmly including reform and opening up into our party's basic line for building socialism with Chinese characteristics during the initial stage of socialism fully conforms with reality. Modern natural sciences began in the West. Since World War II, science and technology in the world has advanced by leaps and bounds. If we are to ensure that our country's science and technology catches up relatively quickly to the world's advanced levels, we must study hard and draw in the advanced science and technology of foreign countries. Self-reliance and studying from other countries are complementary activities.

During the period of the First 5-Year Plan our country was open in its foreign relations. At that time, the Western capitalist powers blockaded us and we promptly sought assistance from the Soviet Union and Eastern Europe. We laid down a certain base for modern industry and modern science and technology and we obtained some of the equipment and materials necessary for developing high technology industries for national defense. In the fields of science and technology, we engaged in quite wide-ranging cooperation with the Soviet Union and Eastern Europe. Our country's famous atomic energy scientist Wang Ganchang, while at the Soviet Union's first high-energy accelerator, discovered a new particle. Now our country's international scientific and technological cooperation and intercourse has seen great development. It comprises many types and the avenues are daily becoming broader. Its scale is now far beyond that of the past. However, for some basic theoretical research which requires huge investment, needs a long period and which is not directly related to the national economy, a good method is still to use the equipment which is already available abroad to carry out cooperative research. In this way, not only can we win time, but the funds thereby saved can be used in more pressing areas of the four modernizations.

Of course, under conditions of opening up and being able to obtain foreign assistance, we certainly cannot give up self-reliance as our main policy. Otherwise, we will never be able to escape from the passive position of

reliance and imitation. If our huge country does not mainly rely on its own efforts, is not self-reliant and does not build through arduous efforts, it will never be able to become prosperous and strong. Assistance provided to us by foreign countries has always had reservations and conditions; they have been unwilling to provide us with the most advanced technology; and when one seeks things from people, it is difficult to avoid being subject to other's restrictions. These points have been proved by practice. However, self-reliance certainly does not mean that we have to do everything ourselves. During the 1960's we relied entirely on our own strengths in carrying out construction. This was forced on us by the circumstances and we had no alternative. Drawing in advanced foreign technology which we need and tightly combining this with domestic scientific and technological research will enable us to speed our pace of progress and will be of benefit in carrying out socialist modernization with self-reliance as the main part.

**In summing up the experiences and lessons of history we must persist in the view that everything has two aspects.**

In summing up the experiences and lessons of history we must persist in the view that everything has two aspects, as thereby we will be able to guard against looking at history with ossified concepts. We must truly seek truth from facts and from this obtain true conclusions. This will be of advantage to us in more deeply understanding the spirit of the 13th Congress.

After foreign aid was discontinued in 1959, we relied on our own strengths and successfully developed high-technology defense weaponry. This historical fact convincingly proves that whatever foreigners can do, Chinese people, under the leadership of the CPC, can indeed also do. Our scientists and technicians have the ability to scale the peaks of the world's science and technology. However, in summing up this successful historical experience, we should recognize: 1) We advanced on a base of a certain amount of foreign assistance and the taking in hand of that foreign assistance. If it were not for that we would not have achieved successes as quickly as we did. 2) There has been the participation of many scientific and technical experts who studied in the West and returned home and who have a fairly high scientific and technological level. Their outstanding contributions are recognized by all. 3) We have not let slip any opportunity to draw in useful data and information from open foreign documents. 4) None of this is separable from the spirit of self-reliance and creation through arduous efforts. Thus, having a sense of inferiority and lacking confidence and the idea of engaging in construction with the door closed are both mistaken. We do not fear foreign countries blockading us and certainly we will not isolate ourselves. The report to the 13th Congress pointed out: Today's world is an open world. Only if we implement the policy of opening up to the outside world and actively draw in advanced science and technology from abroad will we be able to speed our scientific and technological progress.

The vigorous national coordination with highly centralized organization from top to bottom which we had in the 1960's played a decisive role in our country being able to swiftly develop high-technology defense weapons of world levels. In the situation at that time this was completely necessary. However, we cannot consider this method which was effective under certain conditions to be a pattern which is universally applicable in all situations. Through seriously examining history we can clearly see that cooperative projects have numbered in tens of thousands, and in those times complete reliance on top-to-bottom organizational coordination was not feasible. Many projects depended on active cooperation between relevant departments and regions or between enterprises and institutions to achieve results. This shows that under the systems existing at those times, even for an extremely important key project, it was still necessary to rely on the initiative of grass-roots enterprise and institutional units. It was not possible to rely completely on top-to-bottom planned organization. At present, faced with overall socialist modernization, it is even less possible to follow the previous methods. We must carry out structural reform, change the highly centralized administrative management system, give appropriate autonomy to grass-roots enterprise and institutional units, and establish flexible mechanisms which are beneficial to fully bringing their vigor into play, are beneficial to active coordination and having them tackling problems together, and which complement the necessary top-to-bottom planning organization. Only thus will we be able to achieve coordination on a wider scale and speed the development of science and technology.

The report to the 13th Congress requires that we do not take specific conclusions from books as dogma thereby fettering our movements, and that we do not take things which have been effective in practice as flawless models. Only thus will we be able to correctly view history, and have the experiences and lessons of history assist us in exploration and development through practice.

#### **We Must Persist With the Correct Principles**

In science and technology we must rouse ourselves to catch up and reduce the disparity between ourselves and the advanced nations. Zhou Enlai summed this up from practice as the principle of "seeking truth from facts, sequential advance, mutually promoting progress and trying hard to catch up." ("Selected Works of Zhou Enlai," last volume, p 412) This is an appropriate principle.

#### **We must act in accordance with objective laws and scientific laws.**

"Sequential advance" means doing things in accordance with scientific laws and in accordance with objective laws. During the "Great Leap Forward" our country, under the guidance of a mistaken "leftist" ideology, changed eradicating superstition to eradicating science

and we suffered great losses. Some units arbitrarily altered the design data and technological circuits provided from abroad and took detours. In the process of developing the nuclear industry, we implemented Mao Zedong's directive to "first learn to write regular calligraphy and then proceed on to cursive script," that is, first learn how and then create. First we gained a thorough grasp of the data and equipment which the Soviet Union had provided in aid and then work proceeded smoothly.

However, "sequential advance" certainly does not mean having all one's programs progress behind those of other people. As Zhou Enlai pointed out: "We lag behind the advanced levels of the world, but we can learn from advanced experiences and can use the newest scientific and technological achievements. In this way we can expand our vision and thus our pace of progress can be accelerated." ("Selected Works of Zhou Enlai," last volume, pp 412-413) If we take the development of nuclear weapons as an example, it was only after many research calculations and simulated tests that we were able to develop the actual bomb. And it was only after success with the atomic bomb experiments that we could develop the hydrogen bomb. This is "sequential advance." However, on the basis of the nuclear weapon development situation in the world and our own reality, we planned meticulously and skipped several steps which it was feasible to skip. Also, while focusing on the development of the atomic bomb, we were carrying out the necessary prior arrangements for the development of the hydrogen bomb. We only needed to carry out five or six nuclear tests and in the fastest time of anyone in the world we successfully exploded a hydrogen bomb capable of being carried in a guided missile warhead. This realized to a certain degree and to a certain stage our "efforts to catch up." These experiences are applicable to both military industry and civil industry.

If we want to scale the peaks of science and technology and realize our efforts to catch up, we must first have the courage to dare to clamber up the peaks and not fear difficulties in attack. However this certainly does not mean that we can ignore objective conditions and patterns or can engage in idealism or proceed just on the basis of will. Rather, we must have a scientific basis. Again taking the nuclear bomb as an example, at that time although we did not know about the design principles for nuclear bombs, we did know the scientific principles and necessary conditions for nuclear fission and nuclear fusion. Facing blockades by the major nuclear powers, we were not struck down by the difficulties. Rather, in accordance with the central authorities' decision and with the scientific analytical proofs achieved through strenuous efforts by our experts, we were firmly convinced that not only could we develop nuclear bombs, but that we could catch up. In concrete work, we made thorough plans and, respecting the spirit put forward by Zhou Enlai of being "strict and serious, considering all sides, being safe and reliable and never making a mistake even once in ten thousand times" and the demand that "one experiment should yield results on

a wide range," carried out preliminary research, simulated tests and did other work conscientiously and meticulously and strictly in accordance with scientific laws. We also carried out thorough research into the principles and mechanisms of nuclear bombs so that we knew not only what happened but why it happened. Only then did we implement the plans. Doing things in this way enabled us to avoid to the greatest possible degree mistakes and detours, and opened an avenue for the fairly swift development of nuclear weapons.

**We must have a strategic long-range view and a consciousness of competing at world levels.**

The above details show that the fact that our country's nuclear weapons could be successfully developed quite quickly was primarily the result of the party Central Committee's keen strategic vision, resolute decisions and painstaking guidance. Our country's development of nuclear bombs was for the purpose of breaking down the nuclear blackmail and nuclear threats of the major nuclear powers. We have always aimed at the world advanced level with the purpose of putting ourselves in the ranks of competition at that advanced level. It is for this reason that the personnel who are engaged in this work have always paid attention to trends abroad, have all along soberly recognized the disparity between ourselves and the world's advanced level and unsatisfied, have struggled forward without letup. In today's world, without a consciousness of competing with the world's advanced levels, it will inevitably lead to backwardness. This is a truth which applies to all areas of our country's socialist construction.

Looking back at history, we can see some work which we did not do well because we lacked a strategic long-term view. For example, in the development of some new technical equipment, when we were taking the first steps we did not consider how we would handle things afterwards. This led to where our determination was constantly changing and it resulted in us falling behind. We can also take as an example semiconductor and laser technology. In these fields our country was not late in starting development but because we did not have timely overall plans and there was no coordination, it was not possible to progress persistently and unwaveringly and again we fell behind. These lessons show us we must put efforts into newly-emerging technologies which the world has already developed and which we urgently need, and strive to catch up to the world's advanced levels. Further we must have a strategic long-range view and scientific foresight, master future development trends, grasp some new scientific and technological growth points in a timely way, give these sufficient stress and make appropriate arrangements and be brave in development and creation. Only in this way will we be able to achieve an invincible position.

**We Must Master the Patterns of Guiding Scientific and Technological Work**

The report to the 13th Congress repeatedly stressed: "The viewpoint of life and practice is the first and basic epistemological viewpoint." If we are to lead scientific

and technological work well, we must use the basic Marxist epistemological viewpoint in practice, and master the patterns of guiding scientific and technological work.

**Decisionmaking must be made scientific and democratic.**

Making decisionmaking scientific and democratic is the basic foundation in getting our understanding and decisionmaking to accord with objective reality. We must guide scientific and technological work well, and without scientific knowledge this will not be possible. Now the party Central Committee has repeatedly stressed that cadres must gain more knowledge and this follows the same logic. In the process of developing the atomic bomb and the hydrogen bomb, when decisions were needed, a complex situation appeared. It was only because the leaders went deep into the situation, understood it and took correct decisions in a resolute way that we were able to achieve success so quickly.

However, it is not feasible to just have scientific knowledge without a scientific attitude of seeking truth from facts and without a democratic work style. This is why the party Central Committee has put forward the matter of making decisionmaking scientific and democratic. Facts have proven that all correct major decisions on science and technology were all taken on a basis of full scientific proof and repeated research and experiments beforehand. Even high-level, experienced scientific and technical experts have to do things in this way. The development of modern science and technology is increasingly manifested as a crystallization of collective wisdom. When he was alive, Deng Jiaxian, who is hailed as the "father of the two bombs (the atomic bomb and the hydrogen bombs)," often said that much of the work was done by other people and the success could not be ascribed to him. This was both modesty and the truth. The reason he could become an outstanding representative from the group of people who participated in the nuclear weapons undertaking, while of course primarily involving his very high scientific and technical levels and broad knowledge, also involved his being able to openly draw wisdom from the broad numbers of scientists and technicians, and repeatedly carry out experiments, thereby making correct judgments and taking correct decisions.

Making decisionmaking scientific and democratic also requires that we be good at guiding scientists and technicians in using Marxist philosophical ideology in guiding scientific and technological practice. Combining advanced philosophical ideology and advanced scientific and technological methods is an important condition for scaling the heights of science and technology. If we did not have quite advanced scientific and technological methods, the swift successful development of nuclear bombs and guided missiles would have been unimaginable. The scientific and technological personnel involved in the development of the "two bombs" even today talk about how during their development work they studied

and used Mao Zedong's "On Practice" and "On Contradictions" and that this played an important guiding role in deeply understanding the principles and mechanisms of the "two bombs."

**We must indeed be good servants.**

Back in 1961, Comrade Deng Xiaoping pointed out: "We must create a vital and vigorous situation in which the people have ease of mind, and must realize scientific achievements. The party's leading cadres must make friends with scientists, show concern for them and help them." "In my view, we must indeed be good servants, serving scientists and solving problems for them." (See "Nie Rongzhen's Memoirs," last volume, p 826) Comrade Xiaoping was here advising us of a truth: Only in a vital and vigorous situation in which the people have ease of mind will science and technology see prosperous development. This is the problem which good servants should first resolve. In scaling the peaks of defense science and technology, under today's still extremely arduous conditions, the painstaking arrangements made in all areas by the leading comrades of the Central Committee and the State Council have created the material and technological conditions for scientists and technicians to carry out their work. In the 3 years of difficulties, they still made personal efforts to guarantee the necessary conditions for the scientists and technicians.

Today, we must act in accordance with the spirit of the 13th Congress, further create a social environment which values knowledge and respects abilities, continue to improve the working and living conditions of scientific and technical workers, and work hard to achieve a situation where all people can use their abilities and all abilities can be given play.

The role for leaders as models is also an important factor in the work of leading scientific and technical work. Zhou Enlai employed the scientific attitude of seeking truth from facts, the spirit of conscientious strictness and a democratic, modest and prudent work style. In order to foster our country's scientific and technological contingent and develop our country's scientific and technical undertakings, he gave much of his energy and concern. He thereby established a model for us.

Our scientific and technical contingent which has quite high levels and fine traditions, and which dares to assault and is good at assaulting, developed with the concern, teaching and nurturing of many proletarian revolutionaries of the older generation and grew to maturity in our country. Under the guidance of the spirit of the 13th Congress the broad numbers of scientists and technicians in our country must strive to bring into play a scientific spirit and creative vigor, further develop the brave spirit of exploration and blazing new trails and make more brilliant contributions to the cause of our country's science and technology.



## **Actively and Steadily Promote the Contracted Operation Responsibility System**

40050143d Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 pp 17-20

[Article by the Contracting Question Group of the State Economic Commission's Investigation and Research Office]

[Text] At present the contracted operation responsibility system which has as its basic characteristics "a fixed contract base figure, a guaranteed amount to be handed over, greater retention of excess income and making up any deficiencies in income by oneself" is being gradually promoted throughout the country. This shows that our country's enterprise reform has entered a new stage which has the settling of operational mechanisms as a major part.

### **1. Fully Understanding the Role and Significance of the Contracted Operation Responsibility System**

How are we to change the situation where, under public ownership conditions, there generally exists low efficiency, great waste, a weak sense of responsibility and personnel surplus to those required by the tasks? What methods are we to use in stimulating people's enthusiasm for labor and their creative abilities, as well as arousing people's competitive spirit to advance? These are questions which we have long been unable to resolve well.

After the household production-linked responsibility systems were implemented in the rural areas, they led the way in achieving breakthroughs. This fact provided inspiration for urban reforms. About 1981, the industrial enterprises began experimenting with various forms of contracted operation responsibility system. A number of enterprises, including the Capital Iron and Steel Works and the No 2 Vehicle Factory obtained, through unremitting efforts, clear achievements in this, and in the society this elicited a great reaction. Since last year, contracted operation responsibility systems have been springing up like bamboo shoots after spring rain. The successful experiences of rural and urban reforms show that there can be no doubts about the superiority of the socialist system. The idea that in order to overcome the problems which exist at present in life we need to change the public ownership system is thus without basis. Socialism relies on its own continuous self-improvement, and is completely able to resolve the problem of motivating enthusiasm under public ownership conditions. The key lies in exploring the correct road for separating ownership and operating rights, finding specific forms which can fully bring into play the superiorities of the public ownership system, and establishing an effective operational mechanism for enterprises. The contracted operation responsibility system is in fact the key and the most feasible form we have found in practice for resolving this problem.

The contracted operation responsibility system is an operational management form under which, in setting down the relationship between the state and the enterprise, a contract delineates the limits of operational power, and makes clear the operational responsibilities and the distribution of economic interests.

The establishment of socialist public ownership provides the precondition for motivating laborers' enthusiasm. However, under the former economic system, power was excessively centralized, the various levels lacked clear responsibilities and people's enthusiasm could not be fully brought into play. In particular, in terms of the distribution system, there were no principles manifesting material interests. There existed two clear problems: First in the relationship between the state and the enterprises, there was no recognition that enterprises had relatively independent economic interests, and the enterprises' enthusiasm was not motivated; second, in the distribution of individual consumer goods, there was serious egalitarianism, rewards were divorced from labor, and laborers often could not see the benefits directly brought by their labor. Thus, they did not greatly concern themselves with the operations of the enterprise or the operational effectiveness of the overall whole-people ownership economy. Contracted operations have handled quite well the relationship between the state and enterprises, found a specific form by which ownership and power of operation can be separated, effectively overcome inappropriate intervention in enterprises by the state, strengthened enterprises' responsibilities and guaranteed enterprises' decisionmaking powers. This has created conditions for enterprises to become relatively independent commodity producers and operators responsible for their own decisions and responsible for their own profits and losses. Enterprises are intermediate links involving both the state's interests and the interests of individuals. Tightly grasping this link will allow us to both guarantee the continuous growth in state finances and to ensure that the individual interests of workers are realized. In this way, through the medium of enterprises it is possible to closely link up the interests of individuals with the interests of the state.

The basic goal of our country's economic structural reforms is the building of a socialist economic system which has Chinese characteristics and which is full of vitality and vigor, and developing a planned commodity economy. This will require that planning and the market are organically combined. The contracts are the point at which planning regulation and regulation through the market are combined. The contracted operations engaged in by enterprises are carried out under the guidance and restrictions of state planning. The product mix, operational orientation, quality standards and internal distribution which are included in the contracts must all conform with the state's policy stipulations, and must be subordinate to the demands of the state's overall interests. At the same time, the contracted operation responsibility system also pushes enterprises onto a track whereby they are responsible for their own profits and



losses. Under the precondition of abiding by state plans, policies and laws and regulation, enterprises have full power to make decisions, to organize production in accordance with market demands, to participate in competition and to obtain benefits. Thereby, contracted operation combines the unity of planning with the flexibility of the markets. Not only this, but the contracting puts forward greater demands for reforms in the areas of planning, finances, taxation, pricing, investment, banking, goods and materials and labor personnel. Thus, contracted operation not only is in accord with the overall orientation of reform, but will promote and spur on coordinated reforms in all areas and become a strong promoting force for reform.

Contracted operation accords with our national conditions and reflects the objective demands of the level of development of our country's productive forces at the current stage. The level of development of social productive forces at the present stage in our country is quite low, there are many differences and disparities between different regions and different enterprises and development is very unbalanced. At the same time, the management level is also very uneven. This thus determines that various ownership forms, various operational forms, various labor organizational forms and various distribution forms will continue to coexist for a long time. We thus cannot use a single, unitary plan to resolve the extremely complex issues in terms of the productive forces and the relations of production. Contracted operation in fact emerged in accordance with this real need. Different contract forms including "contracts involving progressive increases in profits handed up" and "a contracted base figure for profits to be handed up with excess being retained" have proven in practice to be effective. We should persist with these for a long time to come and, through practice, further improve and develop them.

Contracted operation has a very great significance in guaranteeing stable financial and economic growth. Since the 3d Plenary Session of the 11th CPC Central Committee, under the guidance of the policies of reform, opening up and enlivening, our country's national economy has seen great development and there has been a clear change for the better in the financial and economic situations. However, because of our poor base, and our large structure, a hundred things have to be done. There is a prominent contradiction between the needs of economic construction and of improving the people's lives and our limited funds. We often have to attend to one thing at the expense of other things and our capacity does not match out ambitions. This situation requires that we take effective measures to develop production and cultivate financial resources. The experiences of Jilin, Guangdong and other provinces and cities as well as many enterprises have shown that the contracted operation responsibility system is a very good measure for producing funds.

Contracted operations also create conditions for speeding the technological transformation of enterprises, and

promoting technological progress. After implementation of contracts, the enterprises, in order to be able to produce good, cheap products and thereby achieve success in competition, are able to positively improve techniques and technology and develop new products. At the same time, the contracts also enable enterprises to be able to accumulate quite a large amount of funds and they can rely on their own strengths to carry out technical transformation. Thus, this provides an avenue for resolving the contradiction by which enterprises have a strong need to carry out transformation but lack the funds to do so.

Our understanding of the contracted operation responsibility system is gradually deepening as practical experience develops. Initially, contracts were seen as an expedient measure for resolving immediate difficulties. However through practice the contracted operation responsibility system increasingly showed the great role it can play and its exuberant vitality. Its significance has already exceeded our original understanding. Experience tells us that we cannot just rely on ideal-model planning to guide reform. The road can only be explored and opened up through practice. All measures and methods which have already been clearly shown to be effective through practice should be summed up and propagated. The reform of the last few years has fully shown that contracted operations are, under the conditions of the primary stage of socialism, a good way for motivating the enthusiasm of workers. Now, the contracted operation responsibility system has been set down as a major policy for deepening enterprise reform. We must make concerted efforts and act together in implementing this policy in an unrelenting way. We must make clear that the contract system is the orientation and that we must persevere with it for a long time. From our work in the past there can be drawn a lesson, and that is that there were too many changes in policy. Some practices, which were actually very good but which were not persisted in until the end, gave rise to reverses and they were unable to achieve their due results. Now, as we implement the contracted operation responsibility system, we must bear this lesson in mind and must pay attention to maintaining the continuity and stability of policies.

## **2. Seriously Resolving the Various Problems Faced by the Contracts**

At present, the situation of development in terms of the contracted operation responsibility system is very good. However, it is still not perfect and there are many problems which require study and resolution.

First, it is necessary to handle well the relationship between contracted operation and the financial administration. Through the motivation of the enthusiasm of workers and resolving the matter of enterprise mechanisms, the contracts promote the development of production and the improvement of benefits. Thus they are a base for stabilizing and increasing the income of the financial administration. At the same time, the contracts

also require the support of the financial administration. The planning of income forms, tax types and tax rates by the financial administration and approving the scope of the contracts has a great influence on whether contracts can be smoothly implemented and whether or not the predicted results can be achieved. Thus, the relationship between the financial administration and the contracts is extremely close. Now, the financial departments and the production departments in many regions are actively and positively coordinating. The financial administration is promoting contracts and the contracts are promoting the financial administration. This is extremely pleasing. However, there are still a small number of cadres who set contracts and the financial administration against each other, and believe that the contracts require that the state give up something. This is a mistaken idea or at least a misunderstanding. Some enterprises, rather than putting efforts into improving management and tapping internal potential, are instead spending their energy arguing about base figures, wrangling over proportions and haggling over matters. Meanwhile some financial administration comrades still retain, either consciously or unconsciously, the old concepts of unified receipts and expenditure. They just stress that "the state must get the largest proportion" and pay insufficient attention to the interests of the enterprises and the workers. Thus, on the one hand, we must guide the enterprises to establish a viewpoint which guarantees the state's finances so that they understand the state's financial situation, that this relates to the overall situation of economic construction and the people's lives and that enterprises as the main source of financial income have an extremely important and irrefutable responsibility in terms of a stable overall situation. Contract base figures and proportions cannot, in general, be lower than the actual results of the previous year or the average figure for the last few years. In order to prevent "whipping the fast ox" and "cutting with one knife" it is also necessary to take as reference the average funds profit rates in the same industry. On the other hand, as far as the financial departments are concerned, they must persist in overcoming the purely financial outlook and establish the idea that if we can develop production we can increase financial resources, and properly handle the relationship between the production of funds, the accumulation of funds and the use of funds. It is necessary to positively carry out reform of the financial system, break down unnecessary conventions, show concern for the enterprises, support the contracts and fully utilize the economic lever of financial tax revenue to develop the productive forces.

Second, we must promote the readjustment of the industrial structure and the product mix. The irrationality of the industrial structure and the product mix is an outstanding problem restricting our country's economic development. Poor economic results, slow technological progress, duplicate and blind construction as well as products not having markets and there being concurrent shortages and stockpiling are often related to this problem. A basic cause of the irrational structure is that the

state, as the main investor, takes on all investment risks and responsibilities. This has induced enterprise and locality "investment hunger." Since the contracts were implemented the profits retained by enterprises have grown and this has created conditions for a gradual change in the major investor from the state to the enterprises. However, this is certainly not to say that, once there is a change to enterprises as the main investors, there will indeed be a rational industrial structure and product mix. If this is not handled well, it will mean that hundreds of thousands of enterprises and tens of billions of yuan will produce a more serious "flood." Here, the key is doing well in the control and guidance of enterprises' investment direction. First, it is necessary to set down well industry plans, so that microeconomic investment accords with macroeconomic requirements. Second, it is necessary to promulgate industry policies and technological policies and through the measures of pricing, taxation and credit, select the superior and foster them, and appropriately raise or restrain enterprises. Special attention must be paid to encouraging enterprises to put investment into those key industries which the state urgently needs to develop and into the production of outstanding new products, products which the market is short of, high technology products and products which can be exported to earn foreign exchange. Third, it is necessary to actively provide credit to enterprises and do well in consultancy service work to overcome the relative narrowness brought on by microeconomic points of view. This will result in enterprises being more scientific and more accurate when making decisions in respect of investment benefits and hazards.

Third, we must gradually change the situation where repayment of credit is made prior to taxation to one where enterprises repay credit from retained profits. In the last few years, because of the contradiction between the heavy tasks of technical transformation by enterprises and the situation of insufficient funds, the state has adopted the policy of allowing enterprises to repay credit prior to taxation, and in this respect fine results have been achieved. Following the deepening of the reforms, now it is necessary to gradually change the repayment of credit prior to taxation to repayment of credit from enterprises' retained profits. This is a major measure in improving the enterprise operational mechanism and in overcoming "investment hunger." It is a major change from reducing taxation and allowing retention of profits to tapping potential and transformation through contracts. Changing the repayment of credit prior to taxation into repayment of credit from enterprises' retained profits is the orientation of reform. Now we must gradually make the transition, treating enterprises differently in accordance with their situation. The general principle is "old credit to be repaid in the old way and new credit to be repaid in the new way." That is, credit obtained prior to the introduction of the contracts is to be repaid before taxation is levied, while credit obtained after the contracts were introduced is to be repaid from the enterprises' retained profits. As for those

enterprises which have quite heavy technical transformation tasks and large amounts of credit, when the contract base figures and proportion to be handed up are being set down, they must be shown appropriate consideration. As for the small number of industries and enterprises which have a strong bearing on the national economy and the people's livelihood or enterprises for which it is not appropriate that the enterprise take on the majority of investment, their development and transformation will still require state credit and discount credit and the state should give them support.

Following the change in the chief investor, the growth in enterprises' own funds and the implementation of the procedure whereby enterprises repay credit with their retained profits, the division of state assets and enterprise assets as well as the implementation of a separated accounting system has become a real problem. We believe that the division of state assets and enterprise assets in whole-people ownership enterprises is not changing the nature of the whole-people ownership system. On the contrary, it ensures that the means of production owned by the whole people are better used and it is beneficial to clearly setting down the responsibilities, rights and interests relationship in terms of investment, and to increasing the enthusiasm of enterprises for carrying out technical transformation and repaying credit. In terms of this question, there needs to be further theoretical research and proving while on the practical level there should be gradual implementation at experimental points.

Fourth, we need to strictly control the growth of consumption funds. In resolving the problem of consumption fund growth, the key lies in the method of linking, through different forms, total wage amounts with enterprises' economic results. Relevant departments should in the light of average fund profit rates for the industry calculate and work out linkage coefficient norms and strictly supervise the enterprises in implementing them. The growth in the wages of staff and workers must be lower than the growth in labor productivity or growth in profit rate on sales. After the enterprise contracts are introduced, the enterprises must strictly and in accordance with fixed proportions extract the special-use funds. They will be strictly forbidden from using production development funds for workers' welfare benefits or for issuing bonuses. Enterprises should as far as possible be economical in their welfare expenditure, and handle matters strictly in accordance with relevant stipulations. In brief, we must make the control of consumption funds a focus in the improvement of enterprises' distribution systems, so that enterprises can gradually establish a self-control mechanism in their distribution.

Fifth, we must draw the competitive mechanism into the contracts and do well in coordinating the various internal reforms of the enterprises. The implementation of the contracts will indeed be able to give enterprise leaders a certain encouragement and motivation. However, in the end, its role is limited. This is because all that

they need to do is ensure that there is growth in production and thereby, in general, the contracts can be completed. It is more difficult to determine, however, whether more or faster growth can be realized, whether the potential of the contractor can be further tapped, or whether more astute or capable entrepreneurs can be found. Competition is a good method for showing results and showing talent. Drawing the mechanism of competition into the contracts will enable better results to be achieved with the production factors and will ensure that persons skilled in operational management will show themselves. Thus, we must implement "tendering for the base figure and open recruitment for factory managers." After contracts are implemented in the enterprises, it will be necessary to look inwards and enliven the various management systems within enterprises, resolve the management and accounting problems subsequent to contracting, and seriously implement economic responsibility systems. This is the basis of and guarantee for completing the contract tasks. In terms of internal distribution, we must persist in implementing the principle of distribution according to work, actively implement piece-work wage and quota wage systems, thoroughly break down egalitarianism and the "big pot." In terms of the personnel system, we must persist in implementing the cadre tenure system and assessment system as well as the labor contract system for workers. In terms of structural setup, on the principle of according with the actual needs of production operation activities subsequent to the implementation of contracts and not engaging in formalism and cross talk, we must strengthen operations sales, quality management and scientific research and planning departments. In terms of basic management, we must grasp the improvement of product quality and the reduction of material consumption. It is also possible to adopt various sorts of forms for doing well in the management of funds, materials and production within enterprises. Many regions and enterprises have already done well in creating good experiences in these respects. For example, the "completion of work load method" which has been instituted in the Shijiazhuang No 1 Plastics Factory and the "banks in factories" which have been instituted in Jilin Province are both good forms for resolving the management and accounting problems subsequent to the implementation of enterprise contracts and are well worth study and propagation by various regions and various enterprises in the light of their own actual situations.

Setting down a good contract period is also an important problem. At present the contract period in many enterprises is quite short. Facts have proven that if the contract is a little longer, it is beneficial to overcoming the short-term nature of enterprise activities and induces them to plan for the longer term. It is also beneficial to accumulating funds for carrying out technical transformation. Thus, we must positively create conditions, improve enterprise quality and do all possible to have medium-length and long contracts.

At a time when the contracted operation responsibility system is developing widely, we must maintain clear

heads and decide on the forms, scope and schedules of contracts in accordance with the actual situation of the region and the unit. We must strive for real results, progress steadily and certainly must not force targets and schedules on enterprises, rush headlong into mass action, or because of biases in our work ruin the reputation of the contracts and other reforms. Leaders at all levels must overcome bureaucratic work styles, go deep into practice, carry out investigative research, continually sum up the experiences created by the broad masses and promptly help enterprises to resolve problems they come across in the contracts. They must also master the trends, sum them up and improve them in a timely way and provide guidance in the overall situation.

### **The Shareholding System Is the Best Way To Determine Property Relationships in an Enterprise**

*HK221130 Beijing HONGQI [RED FLAG] in Chinese No 1, 1 Jan 88 pp 21-24*

[Article by Li Yining [0632 0110 1337]]

[Text] This article discusses the forms of ownership systems and operations chosen by large and medium state-operated enterprises in general. With regard to the shareholding system of the collective economy, people in our academic circles currently hold almost identical views. They believe that the system can be implemented on a trial basis. Regarding small state-operated enterprises, they maintain that it is unnecessary for them to implement a shareholding system. This is because methods such as leasing, contracting, turning relevant enterprises into cooperative enterprises, transferring property with compensation, and so on are enough to solve the problems. In exceptionally large state-operated enterprises which are the lifelines of our national economy, it is more suitable for these to choose contract responsibility system in the future. Therefore, it is unnecessary for them to consider shareholding systems. The above-mentioned viewpoints are contained in my book "An Exploration of Economic Structural Reform" published by the RENMIN RIBAO Publishing House in January 1987. On the basis of the viewpoints contained in the book, in this article I intend to further discuss the problem of shareholding systems from the angle of specially discussing property relationships.

**Failure to clearly determine property relationships is a basic reason for the lack of vitality in state-operated enterprises.**

Why do state-operated enterprises lack vitality? Through discussions on economic structural reform over the past few years, we have clearly discovered that there are many reasons contributing to this. For example, imperfect markets; price distortion; an irrational labor employment system; failure to give play to the role of wages and bonuses; defects in cadre appointing; and so on have impeded the invigoration of enterprises. However, all these and other issues of the external environment are

factors of secondary importance. The fundamental reason why state-operated enterprises lack vitality lies in the fact that they have not yet become a main body which truly has its own interests, assumes its responsibility, and exercises its rights. Whether an enterprise has done well in production and business operation is not clearly linked with the interests it gains. There is no need for enterprises to have responsibility for production and business operations, or take investment risks. We lack mechanisms for self-development and self-constraint in enterprises. Under such circumstances, even if we have done a lot in improving the external environment and enhancing the quality of cadres and workers, enterprises still cannot become a dynamic cell in an economic organism.

We might as well ask: Why have state-operated enterprises not yet become a main body which truly has its interests, assumes its responsibility, and exercises its right? Why are they still attached to administrative organs? Again, this is linked with our failure to clearly determine property relationships in enterprises. We should know that the state, as economic administrator and property owner, has its different functions. As economic administrator the state is responsible for managing the market and regulating relations between supply and demand to ensure economic stability and to promote economic and social development. As property owner the state should increase the value of the property to enhance its economic interests. However, due to various historical reasons we blurred the distinction between these two functions of the state. The existing system governing state-operated enterprises is a product of the confusion between these two functions. Under the system governing enterprises, the administrative subordination and property relationships in state-operated enterprises are mixed up. The state is an economic administrator and property owner of a specific enterprise which takes part in its economic activities. It is unnecessary for an enterprise to hold responsibility for its property, or take risks in production and investment. Boundless responsibility is taken by the state which does everything on behalf of the enterprise. As a result, nobody is actually responsible for the property in state-operated enterprises. Furthermore, due to the fact that the state is both economic administrator and property owner, its function as a property owner very often impedes its function as an economic administrator. In other words the function of the state as property owner will hamper the role played by the state as economic administrator. This fact has enabled us to partly explain why it is difficult to curb inflation, and why excessive consumption funds rises frequently occur.

It is obvious that determining property relationships in enterprises, and making a distinction between the functions of the state as economic administrator and as property owner, are current basic measures for invigorating large and medium state-operated enterprises.

**We have not yet devised a more suitable and effective method than the shareholding system to determine property relationships in enterprises.**

Determining property relationships in enterprises means determining and verifying investors' ownership of the property in enterprises, so that the legitimate rights and interests of investors can be protected, benefits can be rationally shared, and risks are run together. As far as large and medium state-operated enterprises are concerned, their investors could include the relevant central and local departments, the enterprises themselves, and other state-operated enterprises.

After determining property relationships in enterprises the function of the government can truly be separated from that of enterprises, and enterprises' status as legal entities can be defined. Thus, a distinction can be drawn between the function of the state as an economic administrator, and its function as the owner of enterprise property. The first function belongs to state comprehensive economic management departments. In accordance with the market situation these departments make use of means such as prices, taxes, loans, interest and exchange rates, and so on to exercise control over the market, whereas the market guides an enterprise's production, business operations, and investments. The second function belongs to state property management departments. In accordance with the different sizes of enterprises concerned, they adopt different methods to administer the state property so that enterprises will increase the value of their property rather than suffer losses. Through this kind of management, the property of a state-operated enterprise is separated from the entire property of the state. The state is only responsible for an enterprise's property as one of the investors, and such responsibility is limited.

What method should we take, after all, to determine property relationships in state-operated enterprises? There are various types of methods which have been proposed by academic circles and are being implemented on a trial basis. They include the contract operation system, leasing system, property operation system, shareholding system, and so on. They have their own proper role to play, but the shareholding system is the most suitable and most effective method for determining property relationships in large and medium state-operated enterprises. To date there has been no other method better than this one. This method is suitable not only for newly built large and medium enterprises, but also for the existing ones.

The newly built large and medium state-operated enterprises are based on multichannel or single-channel investment. With regard to enterprises based on multichannel investments, investors from the central and local departments and the enterprise will form a board of directors in accordance with the proportion of their investment. The board of directors is responsible for the

enterprise building project and its production and operation on completion, and takes the investment risk. It is also responsible for distributing interest in accordance with the proportion of investments. This kind of new enterprise is a joint-stock enterprise. Regarding enterprises based on single-channel investment, after completion of investment system reform the investment company can control the enterprise property in the form of shares, and form a management committee similar to a board of directors. The management committee will be in charge of the construction project, production, and operation. It will also take the investment risk.

Property relationships in existing large and medium state-operated enterprises are more complicated because they involve the work of verifying the detailed amount of assets, and the issue of determining shares. However, whether there is only one investor or many, the assets of an enterprise can be distributed according to a certain ratio. A board of directors can thus be formed on the basis of this ratio. The difficulty lies in determining the shares of the enterprise, namely the shares converted from profits retained by the enterprise. The existing large and medium state-operated enterprises will encounter this problem in the course of determining property relations. The newly established state-operated enterprises will also face similar problems after they have gone into operation and made profits. My view is: Enterprise shares in state-operated enterprise (they should accurately be called enterprise fund shares) are a form of state property right. A state-operated enterprise is not only an operator but also an enterprise property owner based on the accumulation of achievements in production and business operations. It is only natural that it possesses some shares. In other words, there are dual ownership systems in state-operated enterprises. The earliest investor in an enterprise is the state property management department or state investment company. Enterprise funds based on profits retained by the enterprise is used for reinvestment. These belong to both the state property management department (or state investment company) and the enterprise concerned. The enterprise may transfer with compensation the shares it possesses and gain benefits through this. It may also transfer this part of its property to other enterprises, but it is not allowed to transfer it without compensation. Neither is it allowed to convert it into private or collective property. This shows that under dual ownership systems in state-operated enterprises the final property right still belongs to the state.

As long as we admit the existence of enterprise shares all state-operated enterprises, including those which have only one investor at the beginning of the investment project, have at least two investors after the projects concerned have been completed and have earned profits and made reinvestment. These two investors are the state as an investor and the enterprise itself. If the enterprise is based on multichannel investment the shareholders will number more than two. Therefore, the

property relationships in enterprises can thus be determined, and the enterprises can truly become main bodies having their interests, assuming their responsibilities, and exercising their rights. This is where the greatest advantage of the implementation of shareholding systems in state-operated enterprises lies.

**Joint-stock enterprises with 100 percent state shares are much better than state-operated enterprises under the existing system; the problem is that there are no enterprises with 100 percent state shares.**

As mentioned above, the fundamental reason why state-operated enterprises lack vitality under the existing system is that property relationships in enterprises have not been clearly determined. Determining and verifying shares in accordance with investment channels and reinvestment based on profits retained by the enterprises concerned, is the best way to determine property relationships in enterprises. As mentioned above, central and local departments' shares, and an enterprise's shares (including shares of the enterprise concerned and those of enterprises from other countries) belong to the range of state shares. It is appropriate to say that even joint-stock enterprises with 100 percent state shares are better than state-operated enterprises under the existing system. Government administration is separated from the enterprises because, instead of taking everything into its own hands, the state only assumes limited responsibility. Since the responsibilities, power, and interests of enterprises are defined, and their self-reliant and self-development mechanisms have been developed, enterprises truly become economic entities with an inherent driving force which are working under outside pressure.

The problem is: Is it necessary to implement the 100 percent state shares system in all departments and enterprises? My view is that if we implement a shareholding system, the proportion of state shares should be determined by the size of the departments and enterprises concerned. It is inadvisable to follow a method of "rigid uniformity." In more important departments and enterprises the number of state shares may be greater, whereas in other departments and enterprises the number of state shares may be smaller. Theoretically speaking, as long as the state possesses 51 percent of the shares it can control the enterprise. However, in practical economic life, due to the fact that the remaining shares are fragmented and small in number, even if the state possesses less than 51 percent of the shares it can still control the enterprise. Furthermore, some shares which are not possessed by the state, might belong to publicly owned collective enterprises. Apart from inviting collective enterprises to become shareholders, certain departments and enterprises might also invite individual workers and staff members, or even individuals in society, to become shareholders. In such a way, the shareholding system can make better use of funds in society, guide their flow, and build closer ties between workers and enterprises. When inviting individuals to become shareholders, we must pay attention to the following two important principles:

1) Individual shares are based on legitimate individual investment. Joint-stock enterprises are strictly prohibited from transferring their shares without compensation in all kinds of names to individuals (or collectives). Public interest should on no account be turned into private gain. 2) There should be a certain limit to the number of shares held by workers and individuals in society to prevent certain individuals from holding too many shares in certain enterprises. The second principle will enable the state to retain its control over large and medium state-operated enterprises. The first principle will ensure that the state property is inviolable.

We know that the power of the public economy is not determined by the property it possesses but by the property under its control. The fact that large and medium state-operated enterprises pursue a state controlling shares system does not mean weakening, but strengthening, the public economy.

**Shareholding and contract operation system are located at different levels but they can coexist.**

Some people maintain that shareholding and contract operation systems are two methods for reforming the operation and management systems in large and medium state-operated enterprises. It seems that if the second method is chosen it is unnecessary to choose the first one. I believe that this view is incorrect. Shareholding and contract operation systems are located at two different levels. This is not a problem of choosing one method at the expense of the other.

A contract operation system based on personal responsibility is a kind of operation method. Economic relations between the state as an owner and enterprises as operators are based on contracts. However, such relations are not standardized. Of course, considering our country's current situation, implementing a nonstandardized [feiguifanhua 7236 6016 5400 0553] contract operational system is more practical and feasible. However, it does not solve the problem of separating government administration from enterprises. By implementing this system, it is difficult to avoid short-term conduct of enterprises [qiyexing wei duanqihua 0120 2814 5887 3634 4252 2601 0553], and to let enterprises take the risks in production and investment. This problem cannot be solved at the contract operation system level. Neither should we set more demands on the system.

A shareholding system is located at a higher level. It is a method for determining property relationships in enterprises. Property relationships in enterprises should be truly standardized. This is a problem which cannot be solved by the contract operational system. Since the shareholding and contract operation systems belong to two different levels, they shoulder two different tasks. The shareholding system's task is, on the basis of determining property relationships in enterprises, to enable enterprises to avoid becoming appendages of administrative organs, and to truly become main bodies which

have interests, assume responsibilities, and exercise rights. Under the prerequisite of defining the responsibility of the operators to the owners, the contract operation system vests the operators with certain decision-making power, so that distribution of income and profits between owners and operators can be carried out in accordance with contracts concluded.

Therefore, with regard to relations between the shareholding and contract operation system, the following four practices might occur:

1. Implementation of the contract operation system is followed by a shareholding system, and the contract operation system coexists with the shareholding system;
2. Implementation of a shareholding system is followed by the contract operation system, and the shareholding system coexists with the contract operation system;
3. The contract operation system alone is implemented so that the system can be continuously improved and gradually standardized;
4. A shareholding system alone is implemented and other operation methods are adopted in joint-stock enterprises.

My view is: In particularly large state-operated enterprises which are the lifelines of our national economy, the above-mentioned third practice is applicable. In large and medium state-operated enterprises in general, the first, second and fourth practices can be chosen.

**Regarding a shareholding system as the best method for determining property relationships does not conflict with careful implementation of the shareholding system.**

In my book "An Exploration of Economic Structural Reform," the last chapter is entitled "The Protracted Nature of Economic Structural Reform." In this chapter I advocate implementation of a shareholding system. I also urge the enterprises concerned to adopt a prudent policy in the course of implementing the system. I stress the necessity to make experiments, sum up experiences, and spread advanced experience gradually. The idea of completing the task of implementing a "shareholding system" overnight is not only impractical, but also inapplicable. In the meantime, it will discredit enterprises which are implementing shareholding system so that the reform plan aimed at implementing the system will be given up halfway.

We should admit that at present the work done by our existing large and medium state-operated enterprises of inviting individuals to become shareholders will not produce good results. In the meantime these enterprises will encounter numerous difficulties in this regard. On the one hand, the amount of funds which can be absorbed is limited. On the other, under the conditions of price distortions, and imperfect markets and legal

system, if we ask individual shareholders to risk their funds in investment (turning shares held by individuals into true shares), and expect individuals to make extensive investment in large and medium state-operated enterprises, this means we lack understanding of our country's practical economic environment. Therefore, I maintain that when we are implementing shareholding systems in our large and medium state-operated enterprises, our efforts should first be devoted to determining and verifying the state shares (shares of central departments, local shares, and enterprise shares), and defining property relationships based on the amount of funds. After that, a board of directors should be formed in accordance with the investment ratio. Under the leadership of the board of directors, efforts should be made to implement the factory director (manager) responsibility system so that enterprises will become main bodies which can truly gain interests. After determining property relations in enterprises, in light of local conditions we can openly invite individuals (including individuals in society and workers in the enterprises concerned), or workers in the relevant enterprises alone, to become shareholders in order to increase the amount of investment funds. After determining property relationships in enterprises, if a decision is made to increase the amount of funds in the form of shares, we may also only invite other enterprises, local departments, and collective units to become shareholders. It is not necessary to invite individuals to become shareholders. All this should be determined by the nature of the enterprise concerned.

In a word, economic studies should start earlier, so that theoretical exploration precedes practical work. Admitting that a shareholding system is the best method for determining property relations, and regarding shareholding systems as more advanced than contract operation systems will enable us to define a correct orientation for the reform in enterprises, and to know the way to fully invigorate large and medium state-operated enterprises. Adopting a prudent policy for implementation of the shareholding system, avoiding being overanxious for rapid results, and opposing the practice of rushing headlong into mass action will be helpful to the healthy growth of the shareholding system, and its successful implementation. Admitting that a shareholding system is the best way for determining property relations does not conflict with a prudent policy for implementing the system.

#### **A Talk on Several Theoretical and Policy Issues in the Shareholding System**

*HK221330 Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 pp 25-28*

[Article by Zuo Mu [0146 3668]]

[Text] With the development of China's socialist commodity economy the shareholding system, as an enterprise organization and operation method, is breaking through and advancing on new ground. Data from China's experimental enterprises shows that the chief



advantage of the shareholding system is that it can rapidly pool funds and stimulate effective exploitation and rational distribution of resources. We must sum up experiences gained in experiments to promote its sound development.

#### **I. It Is Necessary To Concretely Analyze the Character of the Shareholding System**

China is based on the system of public ownership of the means of production. An enterprise's assets under the socialist system of public ownership occupy an absolutely superior position in total social assets. In enterprises under the shareholding system, the principal shareholders must also be the proprietors of the assets in enterprises under public ownership. In the past 2 years while developing lateral economic association, some enterprises under public ownership have organized various forms of economic communities with the aim of pooling funds for technological transformation or exploiting resources. Funds invested in the shareholding system form reached 11 billion yuan by the end of 1986. These funds were invested by enterprises under public ownership or local finance at or above the county level. The profits or products distributed by the enterprises under the shareholding system according to shares are still used to develop the economy under public or collective ownership. For this reason the socialist character of these shareholding enterprises does not change. Some overseas academics equate the shareholding system with privatization but this concept is inapplicable in China. In my view, the shareholding system is an outcome suited to the development of commodity economy and it is linked not only to commodity economy but also to the capitalist economic system. Since we still have to vigorously develop the planned commodity economy in a socialist society, it is only natural that such an enterprise organization method as the shareholding system should emerge. The association of government shares will be the emphasis for the shareholding system and have the greatest development prospects. It is therefore groundless to equate China's socialist shareholding system with capitalist private ownership.

We should not exclude individuals from becoming shareholders. When some shareholding companies raise funds from society they have to sell some shares to individuals. Private capital is extremely limited in China today. People's deposits and their cash in hand are basically personal consumption funds and family reserves which are unlikely to be turned into share capital. Moreover, they hardly have the capacity to bear business risks. For this reason, with the exception of foreign-owned enterprises, there are very few shareholding enterprises entirely set up by private capital. When issuing shares to individuals, our principal targets will be individual operators and residents with income from a second job or other special incomes. The participation of individuals as shareholders will change the shareholding companies to a certain extent, turning them into semisocialist or

nonsocialist enterprises, but it will not change the socialist character of our country. On the contrary, with the system of public ownership occupying an absolutely superior position, the existence and development of diversified economic sectors is precisely a feature of our economic structure in the initial stage of socialism.

#### **II. In Setting Up Shareholding Enterprises It Is Necessary To Protect the Rights and Interests of Proprietors and Investors and To Uphold the Principle of Paid Transfer of Asset Proprietorship**

Some enterprises under ownership by the whole people have begun experimenting with the shareholding system. The simplest method is to divide the existing assets owned by the whole people into two parts, the state shares and the enterprise or enterprise collective shares. The specific methods of division are not altogether the same. The usual practice is to turn the new assets obtained in the last few years over to the enterprises and then share the profits according to the number of shares, or to decide a ratio through discussion, whereby the state has slightly more shares than the enterprise. The rationality of this practice is drawing the attention of various quarters and has become a major issue as to whether or not the shareholding system can develop in a sound way.

In my view the practice of gratuitously making an enterprise a complete or part owner of assets owned by the whole people damages the state proprietorship of assets owned by the whole people. Assets owned by the whole people are by no means nonproprietary assets. For a long time, due to the effect of the system of "everyone eating from the same big pot" in terms of capital, and the lack of a well-defined economic form to realize the proprietorship of assets owned by the whole people, people have gained the misunderstanding that determining the proprietorship of assets owned by the whole people is seemingly a question of defining the competence of administrative management. Some people frequently raise the following question: Since the assets owned by the whole people can be placed under the administration of central departments or local authorities, why is it that they cannot be placed under the administration of enterprises owned by the whole people? In fact, with the transfer of asset proprietorship to enterprises, the workers and staff members can take part in the distribution of profits in the capacity of proprietors and get a bonus aside from their labor remuneration. For this reason, this is no longer a change in the administrative management structure but an adjustment in the economic interests and a change in the ownership system. The newly added assets should also belong to the proprietors because it is precisely the motive of investors to seek the constant increase of asset value, which Hong Kong people call "investment returns." If the newly added assets belong to the enterprises instead of the proprietors, and if the investments do not yield returns, who would be willing to invest in shareholding companies?



Efforts to make the enterprises and the staff share some equity rights are reportedly aimed at developing the enterprise's initiative. In fact there is not necessarily a link between them, nor is there such a need. According to the existing system, the workers and staff members of an enterprise under ownership by the whole people have the right to share the enterprise's after-tax profits. Generally speaking, over 20 percent of the after-tax profits is issued as bonuses. The better the economic results, the more the profits shared by the workers and staff members. These profits, which are distributed according to the labor contributions by workers and staff members rather than equity rights, come under the category of personal consumption funds distributed according to work. The system of sharing after-tax profits according to labor contribution is more in keeping with the socialist system of distribution according to work. What reasons do we have to mix up the ownership of assets and distribute personal consumption funds according to capital instead of work?

With regard to the argument that turning workers and staff members into enterprise proprietors is aimed at developing their initiative, it is necessary to make a concrete analysis. As everybody knows, laborers are at once the owners of the means of production operated by them. This is the feature of small production rather than that of modernized mass production. Viewed from the conditions in our country, some small enterprises, which chiefly engage in manual labor, turn the laborers into collective proprietors of the enterprise assets by means of collective ownership or ownership by cooperative members. This is of great importance in arousing the initiative of laborers. Therefore, it is feasible and advantageous to transfer with compensation or to lease to the collectives some small enterprises under ownership by the whole people, and let them run the enterprises independently with sole responsibility for profits or losses. Under the system of making compensation, some small handicraft production enterprises and small shops may also be turned into semisocialist cooperatives or cooperative groups, in which both capital and labor join in sharing bonuses. We can turn some of them into private enterprises or private enterprises in partnership by selling them to individuals. But, as far as a modern large or medium-sized industrial enterprise is concerned, it does not have any practical significance to turn laborers into the proprietors of the enterprise's capital goods. In some large enterprises, even after workers and staff members have subscribed to the enterprise shares for several years, their total share capital still only accounts for a very small percentage of the total enterprise assets, from less than 1 percent to a few percent. It is out of the question to talk about being enterprise proprietors. In large and medium-sized enterprises under ownership by the whole people it is all right to conduct experiments, allowing the workers and staff members to subscribe to some shares. This has proved useful in practice. However, we should not gratuitously "transfer" asset proprietorship to the workers and staff members. If we gratuitously present shares to the workers and staff members, it will lead to unfair possession of shares among different

enterprises in cities and towns and among workers, peasants, and intellectuals, thus endangering social unity and stability. Even so, it is still quite doubtful whether by giving modern large and medium-sized enterprises completely to the workers and staff members as collectives we can prevent the enterprises from behaving from a short-term point of view, and ensure the planned, stable development of the national economy. At least, there has not been a successful precedent in the world so far. For this reason, we cannot but adopt a prudent attitude toward this.

Although some people recognize that the assets of enterprises under ownership by the whole people belong ultimately to the state, they fail to understand that only the ultimate asset proprietors can share the bonus in the capacity of proprietors, and are qualified to ultimately dispose of the assets. For example, an article holds: "The will of enterprise legal entities is subordinate to the will of the ultimate proprietors of public assets, namely, the will of the whole people, and they should act according to state law. However, they can also realize their full proprietorship, especially their rights to dispose of assets, within the limits permitted by the law." This theory overlooks the basic principle that ultimate proprietorship must have economic interests and bear economic responsibilities, holding that ultimate proprietorship can be realized only through the law rather than the attainment of profits. If we accept this view, there will be no difference between enterprises under ownership by the whole people and collective or private enterprises, because the latter should also have full decisionmaking power within the limits permitted by the law. We can thus see that if we implement this theory, the state's ultimate proprietorship of assets under ownership by the whole people will become nominal ownership, while the enterprise's nominal ownership of state assets will become actual ownership.

Who should be the proprietors of enterprises under ownership by the whole people? Due to the effect of "large-scale and communist-style operations" in the past, and the theoretical chaos of the past few years, the issue has become mixed up. For example, in an enterprise under ownership by the whole people, who should be responsible for profits and losses? It can only be the proprietors, and not the enterprise collective or the enterprise workers and staff members. This means that when an enterprise operates at a loss or goes bankrupt, the proprietors should assume a limited responsibility for making compensation within the limits of registered capital and, when it makes profits, they obtain the profits in the capacity of proprietors. However, people tend to take those responsible for the profits and losses of an enterprise under ownership by the whole people as the enterprise workers and staff members. This is untenable both in theory and practice. This is because the manager of an enterprise accepts the proprietor's commission and presides over routine business activities by dint of his managerial capability. Because he is not the proprietor, he cannot receive profits in the capacity of a proprietor,

nor has he any capital to lose. As a laborer, he can only be held responsible for the tasks he has accepted rather than the profits or losses of the enterprise. If the enterprise attains good economic results, the workers and staff members should get more remuneration for their labor; if the enterprise operates at a loss, it is the proprietor that suffers the greatest loss. We can thus see that it is necessary to clarify in terms of principle the relationship between the proprietors, operators, and laborers, and to standardize their relationship in the form of legislation because it is of urgent significance to the sound development of the shareholding economy.

### **III. It Is Necessary To Turn Shareholding Companies Into an Effective Way To Explore the Path of "State Proprietorship and Enterprise Operations"**

In his report to the 13th Party Congress, Comrade Zhao Ziyang reaffirmed: "It is necessary to invigorate enterprises owned by the whole people by separating proprietorship from managerial authority." The main problem now is that the enterprises are far from being invigorated. If we trace the matter to its cause, we can see that it is not because the enterprises do not have proprietorship but chiefly because the integration of proprietorship of assets owned by the whole people, and political power, acts as the most powerful control over enterprises. Therefore, with the exception of a small number of special enterprises, in an effort to invigorate the enterprises and let the shareholding system develop in line with the needs of commodity economy, a pressing matter of the moment is to distinguish between the state function as the proprietor of assets owned by the whole people, and the administrative function of the government. As everybody knows, the behavioral objectives of an enterprise proprietor are not completely the same as those of the government. For example, the government wants to expand employment and increase output value but the proprietor is most concerned about profits. Stressing the independent function of the owner and distinguishing the proprietor of the enterprises from the government department in charge of the enterprises, can certainly restrict government administrative interference in ordinary competitive-type enterprises. Therefore, the objective of our reform is not to abolish state proprietorship of assets owned by the whole people but to make the state proprietorship independent and a civil matter, and to turn it into a protective screen to ensure the decisionmaking power of enterprises. A proprietor can also rigidly manage his enterprises. However, with the organization of a shareholding company, there are so many owners that they can no longer continue working as operators. Moreover, in shareholding companies the realization of proprietorship will assume a purely economic form, namely, the attainment of profits and products. Because the proprietors are most concerned about the attainment of more profits and products, it is necessary to entrust the power of operations to skilled persons, giving them full powers. Therefore the organization of shareholding companies will create new possibilities for the transfer of power to enterprises. Some

people hold that shareholders in a Western shareholding company are no longer proprietors. This is incorrect. The shareholders of a Western shareholding company have ultimate proprietorship. The enterprise legal entities are formally the asset proprietors but their proprietorship is only nominal. The separation of ultimate proprietorship from legal entity proprietorship not only ensures the rights and interests of shareholders but also enables enterprises to have complete decisionmaking power in operations. This experience in Western shareholding companies merits our study. While separating ownership from political power we should make further efforts to separate the ultimate proprietorship from the legal entity proprietorship in a shareholding enterprise. While ensuring the rights and interests of, and holding ourselves responsible to, the proprietors, we should integrate the enterprise's legal entity proprietorship with the power of operations. This is an important link which enables entrepreneurs to share full and independent power of operations.

### **IV. It Takes Time To Develop the Shareholding System and We Cannot Chiefly Rely on Administrative Means To "Operate Enterprises on a Shareholding Basis"**

In developed capitalist countries, shareholding companies have a history of more than 300 years. But up to the present, their number accounts for a considerable proportion only among the large- and medium-sized enterprises. With the rise in the socialization level of production and the growth in China's commodity economy, enterprises practicing the shareholding system will also surely develop. However, people are still unfamiliar with the shareholding system and the leaders also lack experience. Viewed from our experiments we should rely on the internal motive force of enterprises to implement the shareholding system. To exploit new resources, develop new products, or increase the output of famous-brand, quality commodities, many enterprises want to raise funds quickly. Therefore, they energetically set up shareholding companies. If we organize shareholding companies in economic association in line with the needs of economic development, the shareholding companies can in turn consolidate lateral economic association. This is an important point we have learned from the experiments.

In discussing the question of shareholding systems there is always an inclination to try to chiefly use administrative means to promote, from top to bottom, the operation of enterprises on a shareholding basis. Those holding this view put forward various ideas, such as gratuitously putting the proprietorship of assets owned by the whole people under lower administrative levels, distributing equity rights to the relevant units or local authorities, and giving preferential treatment such as tax reductions and profit concessions to shareholding companies. The feasibility of these lines of thought is open to doubt. If instead of relying on the demand to speed up the development of productive forces and on internal motive forces, we rely on administrative measures to

promote the shareholding system, the enterprises, and the departments in charge of these enterprises, will be unwilling to join the shareholding companies if the state neither gratuitously transfers equity rights to the enterprises nor reduces the taxes or gives tax concessions to the shareholding companies. For example, the setting up of shareholding companies can help remove barriers between different departments and regions. However, if we set up these companies with the sole purpose of removing barriers between different departments and regions, the relevant departments which are deprived of their jurisdiction over the enterprises will be unwilling to comply, and the relevant enterprises will adopt a negative attitude because they do not benefit from it. Moreover, if we adopt a special, preferential policy (such as abolishing all regulatory taxes which a shareholding enterprise should turn over to the state as is the case in some localities) toward shareholding enterprises, it will be tantamount to policy guidance and bring about an "intense popular interest in shares" in a short time. This will lead to the creation of many shareholding companies which are neither in keeping with the need for economic development nor conducive to economic growth. Many sham shareholding companies may even emerge, as was the case several years ago when thousands of unqualified fly-by-night companies emerged overnight.

The socialist economy is a planned commodity economy. The institution of the shareholding system in large and medium-sized enterprises under the system of ownership by the whole people should be both selective and restrictive. For example, it is inadvisable for high-profit enterprises and for loss-making enterprises whose service charges can hardly be raised to a rational level, to adopt the form of public shareholding companies.

In short, in setting up shareholding companies it is necessary to proceed from the practical need to develop productive forces, to adhere to the principle of voluntary participation, and to accept the guidance of the party and government in terms of policy. A shareholding company should, and also can, take advantage of its own strong points to improve its economic results and increase its competitive power. It should not increase its appeal by relying on tax reductions and profit concessions. The leading organs should remove obstacles in terms of policies, vigorously provide guidance, sum up and popularize the experiences gained in shareholding system experiments, and help straighten out the relationship between the proprietors and operators. They should promote the standardization of the shareholding system by legislative means rather than taking everything into their own hands, thus spoiling things by excessive enthusiasm.

In an article published in January 1986, I said: "We should strive to set up shareholding companies with Chinese characteristics." Since then I have raised differing views on some specific practices in the experiments

on the shareholding system with the aim of stimulating its sound development, but I have not changed my consistent stand of vigorously supporting the shareholding system experiments.

### **1987: A Year Marked by Low Economic Growth and Instability in the West**

*40050143g Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 pp 29-33*

[Article by Yu Yongding [0151 3057 1353]]

[Text] In 1987, economic growth continued to be slow in the West. The Organization for Economic Cooperation and Development estimated a 2.75 percent growth for the developed capitalist countries, with the United States doing slightly better than in 1986 with a 3 percent increase, Japan showing much better performance than in the previous year with a 3.5 percent growth, and Western Europe performing slightly worse than the year before with a 2 percent rise. The developing countries in general were tipped to have scored a slightly higher growth rate than the 4 percent in 1986.

The year 1987 saw even greater unrest and instability in the Western economy. The slump in Wall Street share prices on 19 October 1987 was a clear proof of this. The economy of the developed capitalist countries was once again threatened by recession and inflation, and the situation is expected to be even grimmer in 1988.

### **Fluctuations in the Dollar Exchange Rate**

Trade imbalances between the developed capitalist countries remained acute in 1987. Since 1986, the countries concerned have strengthened international coordination in an effort to step by step eliminate the imbalances. However, rather than being reduced, these imbalances grew even bigger in 1987. It is estimated that U.S. trade deficits could have increased to \$171 billion from \$156 billion in 1986. The country's foreign debts have steadily built up as a result of sustained trade deficits. Net foreign debts for the year 1987 could well have soared to \$400 billion from \$263.6 billion in 1986. This has resulted in fluctuations in the dollar exchange rate.

In the early 1980's, most of the developed capitalist countries adopted a policy of economic retrenchment in an effort to tide over the "stagflation." The United States, however, adopted an expansionist fiscal policy while rigorously implementing a tight-money policy. As a result of massive increases in military spending and the approval of "tax cuts" by the Reagan administration, U.S. federal deficits increased substantially. The combination of a tight-money policy with an easy fiscal policy sent interest rates soaring. Since interest rates were much higher in the United States than in countries like Japan and the Federal Republic of Germany, foreign capital

flooded into the U.S. market. The huge demand by foreign investors for dollar assets (bonds, stocks, etc. which are listed in dollars) forced the dollar exchange rate to rise steeply.

High exchange rates dealt a heavy blow to the U.S. exports departments, but they gave the country's imports a great boost. U.S. trade deficits increased drastically. Burdened by sustained trade deficits, the United States became the world's biggest debtor nation in 1985. In September 1985, the financial secretaries and presidents of the central banks of the United States, Japan, the Federal Republic of Germany, Britain, and France met in New York and decided on collective actions to intervene in the foreign exchange markets in an effort to reduce the price parity between the dollar and currencies like the Japanese yen and the deutschemark. As a result of this intervention and other factors, the dollar exchange rate steadily came down. In early 1987, the dollar exchange rate approached the 150 yen or 1.8 deutschemark level. The drop in the dollar exchange rate helped reduce trade deficits, but it also increased the price of import goods. Moreover, it left the United States with no other alternative except to offer higher interest rates in order to attract sufficient foreign capital to offset its budget deficits. The U.S. economy, which has all along been in a state of slow growth, could be dragged into recession by high interest rates. Countries like Japan and the Federal Republic of Germany had long since found the devaluation of the dollar too much of a burden on their respective economies. Against this background, the financial secretaries of the five nations met in the Louvre, Paris, and decided on collective steps to steady the dollar exchange rate in the foreign exchange markets. After the Louvre meeting, market fluctuations quieted down somewhat. However, the developed countries would only go so far in their efforts at coordination. Because of sustained high U.S. trade deficits and constant bickering between the Western nations, the foreign exchange markets remained unstable. Speculators would undersell the dollar at the slightest rumor. Not long after the Louvre meeting, the dollar began its nosedive again.

Following the plunge of the dollar exchange rate, there were obvious signs of the rate of inflation picking up again in the United States. In the face of this situation, the Federal Reserve Bank had no alternative but to enforce a tighter money policy in order to halt inflation and steady the exchange rate. In September, the Federal Reserve Bank raised the discount rate from 5.5 percent to 6 percent. The leading banks also readjusted their prime rates upwards.

Since the price of shares equals their prospective earnings divided by interest rate, a rise in interest rate would mean a fall in share price. In fact, with the long-term interest rates constantly on the rise, the earnings ratio of the U.S. Treasury Bonds had topped 10 percent for some time. A fall in share prices was thus inevitable. On 19 October, the stock market, which had been on a 2-year upswing fueled by speculators, suddenly gave way.

Shareholders dumped their shares and moved their cash to the more profitable bonds market. At the New York Stock Exchange, the Dow Jones index lost 508 points in a single day's trading, wiping \$500 billion off the face value of the shares. The shock waves of the New York collapse shook the entire capitalist world, and share price indices in Tokyo, London, Hong Kong and elsewhere tumbled. Although share prices showed a rebound in the following days, reverberations in the stock market had not subsided.

After the New York stock market nosedived, the Federal Reserve Board changed its mind and adopted an easy-money policy. Interest rates began to fall and share prices picked up somewhat. However, this move by the Federal Reserve Board implied that the U.S. Government had given up using high interest rates as a means of stabilizing the dollar and holding inflation in check. Under the circumstances, a further plunge of the dollar was inevitable. As it turned out, the dollar did slip after this.

It is obvious that the United States is in a real dilemma over the exchange rate policy: To hold the dollar steady, it must tighten money supply and raise interest rates, but a rise in interest rates would lead to another stock market plunge and drag the country into recession sooner. If it loosened its grip on money supply to stabilize the stock market, the dollar would continue its fall and this would touch off a new round of inflation. More importantly, if the fall got out of hand, the resultant dollar crisis would shake the existing international trade and monetary systems. The policy of stabilizing the dollar exchange rate by monetary means obviously no longer worked. Under the circumstances, the U.S. Government began to pin its hope on the workings of financial policies. Reagan, who was all along opposed to tax increases, openly agreed to consider increasing taxation. Congress also agreed to cuts in social welfare spendings. But would this bring about the realization of the plan to reduce the budget deficits? And even if the plan could be realized, would the reduction in deficits bring about a marked improvement in the trade imbalance and stabilize the dollar exchange rate? It is obvious that the dollar will continue to be unstable for some time to come because the future is still uncertain. The dollar is likely to be further devalued in 1988.

The unstable dollar exchange rate is the cause of great instability in world trade and the workings of the world financial market. The developing countries often find themselves victims of fluctuations in the dollar exchange rate. In view of the unstable dollar exchange rate, the developing countries should formulate countermeasures in the light of reality in order to avoid the full impact of the blow and reduce possible losses to the minimum.

#### **The Upgrading of Trade Protectionism**

After World War II, free trade developed under the protection of the General Agreement on Tariffs and Trade (GATT). GATT is a multilateral agreement and

an international organization at the same time. It established the three principles of "nondiscrimination," "transparency," and "mutual benefit." In accordance with these three principles, each member state of GATT must treat all its trading partners on an equal footing and must remove all forms of trade barriers other than tariffs; if one party to a trade deal offers concessions in tariffs, the other party must reciprocate the offer. After seven rounds of GATT talks, the average tariff rate for manufactured goods was reduced from 40 percent in 1947 to under 10 percent in 1974. There are plans to step by step reduce the average rate to between 5 and 6 percent. GATT also gave sympathetic consideration to the interests of the developing countries up to a point. For example, it allowed the developed countries to levy a lower import tariff on the developing countries. In consideration of their own interests, the developed countries were against the application of the free trade principle to trade in agriculture and textiles. They offered subsidies on farm products and assigned trade in textiles to the jurisdiction of the Multifiber Agreement. The Multifiber Agreement, which specifies the quotas for the export of textiles from the developing countries to the developed countries, is in fact a mixture of a series of multilateral agreements. The agreement is obviously not conducive to the expansion of exports by the developing countries.

Since the late 1970's, the developed capitalist countries were more and more inclined toward trade protectionism. GATT was repeatedly violated both in word and in spirit. To begin with, nontariff trade barriers of all descriptions have multiplied (the major forms include quotas, import bans, "voluntary" restrictions on exports, "orderly marketing," export subsidy, safety and health regulations, overelaborate customs procedures, etc.). For example, among the products exported by the developing countries to the developed countries in 1986, 21 percent were affected by "nontariff barriers." Of these, 68 percent of textile exports and 78 percent of fashion exports were affected by "nontariff barriers." Second, the developed countries have been adjusting their import tariffs upwards more and more frequently. For example, before 1974, the United States had only increased its tariffs on two kinds of import goods. After 1974, it has raised its tariffs on nearly 20 kinds of import goods, including carbon steel and ball bearings, in the name of "special protection."

As trade imbalances persisted, friction between the developed countries mounted in 1987. The problem of protectionism also aggravated. In March 1987, on the pretext that Japan had violated the Japanese-U.S. Semiconductor Agreement in "dumping" semiconductor parts to "third-nation markets," the U.S. Government announced its decision to levy a 100 percent tariff on a series of Japanese electronic products, with taxable amount in the region of \$300 million. In April 1987, on the pretext that Japan's Toshiba Machine Co., Ltd. had violated the regulations of the Paris Coordinating Committee in selling hi-tech items to the Soviet Union, the

U.S. Government imposed sanctions against the Toshiba parent company and the Toshiba Machine Co., Ltd. The U.S. Defense Department declared that it would not conclude any new contracts with Toshiba and Toshiba Machine. On 23 November 1987, the U.S. Government declared that if U.S. meat exports to Europe suffered as a result of the enforcement of the EEC ban on the use of hormone in the feeding of beef cattle, it would impose tariff sanctions on about \$100 million worth of imports from Europe.

The United States spearheaded its protectionist measures not only against the developed countries but also against the developing countries. On 13 November 1987, in retaliation against the policy adopted by Brazil to protect its own information industry, the U.S. Government announced substantial increases in import duties on certain Brazilian products and banned the import of a number of Brazilian computer products.

In 1987, the U.S. Congress proposed and passed a whole range of protectionist trade bills. For example, one of the bills proposed restrictions on 185 items of imports, including nonrubber shoes and all textile goods. Under this act, quotas for the above-mentioned items are based on their respective 1986 import levels. The 1987 textiles import quotas, for example, can be worked out by adding 1 percent to the 1986 level of textile imports. Increases in import quotas for each item are limited to 1 percent each year. The bill also proposed to freeze the imports of 15 types of nonrubber shoe products at the 1986 level. The most important of these bills are the "Trade Reform Bill" passed by Congress on 30 April and the "Overall Trade Bill" passed by the Senate on 21 July. The "Trade Reform Bill" incorporates the proposal of the Gephard Amendment Bill which is directed against "countries having excessive surpluses in their trade with the United States as a result of unfair means," and which says that the President should "by means of tariff and restrictions reduce the trade surpluses of these countries by 10 percent each year." The trade bill passed by the Senate also has similar content.

The developing countries are finding the tightening up of protectionism by the developed capitalist countries, particularly by the United States, very disturbing. While resolutely opposing trade protectionism in different ways, they are now readjusting their respective export mix and formulating their own external economic development strategies.

#### **The Problem of Third World Debts Has Taken a New Turn for the Worse**

The single most important restrictive factor on economic development in the developing countries is the lack of capital. In the 1970's, huge amounts of international capital flowed into the developing countries, giving a positive boost to the economic development of these countries. However, on account of changes in the international environment, fueled by policy errors on the part

of certain developing countries, a serious crisis erupted in 1982. Since most of the loans to the developing countries had floating interest rates, the key to the issue lay in the relationship of interest rates to the rate of growth in export earnings. In the early 1980's, there was a steep rise in interest rates as a result of the implementation of a tight money and easy-going fiscal policy on the part of the developed capitalist countries, particularly the United States. Meanwhile, under the impact of the slowing down of the global economic growth rate and the fall in oil price, many of the debtor nations found the rate of growth of their export earnings receding by big margins, in some cases even showing negative growth. Under the circumstances, the credibility indices of these countries rapidly deteriorated and the developed nations were unwilling to extend new loans. This was how the 1982 debt crisis came about. In order to enable the debtor nations to continue with the repayment of capital with interest and keep the international monetary system from crumbling, the developed countries and the debtor nations had negotiations to rearrange the maturity of the loans. The debt crisis was thus alleviated for the time being.

Since 1982, the method consistently adopted by the developed countries in regard to the debt problem is to tackle individual cases "one at a time." What this means is that after the retrenchment plans of the debtor nations have been verified by the International Monetary Fund, the loans would be rescheduled, with the commercial banks extending the maturity period and the debtor nations pledging to at least pay interest on the loans. This method, which essentially means that the debtor nations must tighten their belts in order to repay their debts, has produced the reverse flow of capital in the world economy. This phenomenon of the reverse flow of capital, which is sometimes called the reverse flow of funds, means that capital which flows from the debtor nations to the creditor nations (developed countries) in the form of interest payment, profits, bonus and so on is greater in amount than that which flows from the developed countries to the debtor nations (developing countries). Over the last few years, the net value of capital exported from the Latin American countries alone amounted to \$125 billion. Because of the reverse flow of capital, the debtor nations had no alternative but to reduce investment. By 1985, the investment rate of the Latin American countries was nearly 30 percent down compared with the late 1970's. The massive drop in investment rate has had a very bad effect on the intermediate and long-term economic development of these countries.

In February 1987, Brazil, the biggest debtor among the developing countries, declared its decision to suspend the payment of loan interest. This decision greatly shocked the international monetary circles because Brazil had all along been looked upon as a successful show piece among the debtor nations. Several years ago, Brazil had achieved an economic growth rate of 8 percent for years running, and its trade surpluses were in excess of its loan interest payable. In 1986, the Brazilian economy

rapidly deteriorated. There was serious inflation and exports were at a standstill. Under the circumstances, the suspension of interest payment became inevitable. Brazil's decision fully indicates that the debt problem has taken a new turn for the worse. In fact, as early as in 1985, the president of Peru had already announced that Peru would limit the repayment of loans to under 10 percent of the value of its exports. Imitating the Peruvian model, some of the debtor nations also linked their loan repayment to the total value of their exports earnings or gross domestic product. Very few debtor nations had the ability to repay the principal.

In order to avoid a new debt crisis, people began to seriously consider a number of "new strategies" and "new tactics" for tackling the debt problem in 1987. The most important of these strategies and tactics is the notion of "claims for equity." The idea is that foreign investors can buy at a discount from the creditor banks financial claims to the debtor nations, after which they may exchange the purchased claims which are billed in the U.S. dollar for the currencies of the debtor nations and directly invest in these countries (e.g., purchase fixed assets or shares) using the local currencies. In this way, the creditor banks can retrieve part of their loans at the cost of a loss of their claims (because they are selling their claims at a lower price), while the new investors undertake risk investments in the debtor nations. This arrangement has an obvious advantage to the debtor nations, since the debts they owed to the banks are now turned into foreign investments and they are no longer liable to repayments. In May 1987, Citibank, America's leading commercial bank, announced its decision to increase its reserve by \$3 billion for writing off possible bad debts. Many banks the world over made similar announcements afterwards. This move by the commercial banks of the developed countries is an indication that they no longer pin their hopes on recovering their loans to the developing countries in full. This move has also paved the way for the practice of "claims for equity" on a large scale. In the meantime, many debtor nations are actively preparing the necessary conditions for the conversion of debts into investments. However, monetary means like "claims for equity" can at best alleviate the debt burden of the developing countries, they cannot solve the problem of Third World debts which amount to as much as \$1,000 billion. In order to resolve the debt problem once and for all, the developed countries must make more substantial concessions to the developing countries. In 1988, the debt problem of the developing countries is likely to deteriorate still further because the interest rates of the developed countries are likely to go up again, while the developing countries are unlikely to see a significant growth in their exports in view of their low economic growth.

In early 1987, when the dollar was on a continued decline and U.S.-Japan trade friction was at its worst, some Western economists sketched the following picture of global capitalist economic development for the immediate future: With U.S. trade deficits remaining high and

the dollar exchange rate steadily falling, foreign investors will no longer be willing to buy U.S. Treasury Bonds to offset the U.S. budget deficits. As it has no other ways of raising funds to cover trade and budget deficits, the Federal Reserve Board will be forced to offer higher interest rates to attract foreign capital. With high interest rates, domestic investment will sag and the economy will plunge into recession. The economies of Japan and the Federal Republic of Germany will also slip into recession following a decline in exports. Another debt crisis will erupt as many of the developing countries see a steep decline in their exports. This will lead to the further deterioration in the global situation of the capitalist economy. The situation in 1987 suggests that there is indeed the possibility of an economic recession in the capitalist world in the last 2 years of the 1980's.

**An Art That Follows the March of the Time—  
Reviewing the Achievements of Television Drama  
in the New Period**

40050143h Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 pp 34-39

[Article by Peng Jiajin [1756 0502 3866] and Li Xia  
[2621 0007]]

[Text] Television drama is a young form of art. In spite of this, it has quickly conquered the world and won an unprecedented number of audiences because it is a lot easier to shoot and produce than films and enjoys the advantage of speedy and widespread transmission. In China, television drama first came into being in 1958. Initially, the shows were broadcast live. With the development of science and technology, the art of television drama ushered in its own spring in an excellent situation of reform and opening to the outside world in the new period. After 1978, the art of television drama entered its second phase of development, when shows were produced before transmission. A number of better-equipped production units are now preparing for the transition to the third phase of development, when multi-camera shooting will be done principally on sets and live recording will be carried out. There is a sharp increase in the number of television dramas produced, as well as an improvement in quality. The production capacity has expanded to over 1,000 shows a year within a short span of 6 to 7 years. Although this above-normal speed has come about under given historical conditions and development will be more steady in the future, the fact that such an achievement has been made is itself a convincing evidence of the tremendous efforts made by the television artists.

The relationship between art and life is the primary concern of aesthetics. In our review of the development and achievements of the creation of television drama in the new period, this relationship will naturally become the focus through which we observe the many and varied phenomena before us. If we brush aside the mediocre and the vulgar productions, we can see more clearly that most of the television dramas which are considered

outstanding and have drawn a strong response from the viewers are art that follows the march of the time. On the one hand, the creative artists have instilled into their works the dynamic spirit of the time; on the other hand, the response of the viewers, as feedback and recognition, serve as a convincing proof and complement. These works are at once the product and the mirror of the time.

"Trifle Matters of Mortal Folks" which came out in 1980 may be considered the first popular television drama of the new period. This drama which was similar to the familiar essay genre and which was so simple it reminded one of the primary state of life had aroused sympathetic response from hundreds and thousands of viewers. It truthfully and penetratingly reflected the sufferings of the people, lashed out at the bureaucrats, and paid warm tribute to leading cadres who showed concern for the well-being of the masses. "The Wasted Years" which came out at a slightly later date was another fine piece of work. It was a long dramatized series about the life of young intellectuals during the Cultural Revolution. It gave concrete and vivid artistic expression to the nightmarish kind of life which had just been brought to an end. It was full of accusations of blood and tears, as well as deep reflections on the past which figuratively conveyed the aspirations of the people. It was adapted from a novel, but had obviously surpassed the original in terms of effect. Through this drama series, the unique advantage of the fluorescent screen as a medium of literature was demonstrated for the first time.

Chernyshevski said: "Literature...by nature, cannot but be the embodiment of the aspirations of the time; it cannot but be the conveyor of the thoughts of the time." The choice of the time in art is often confirmed by the adaptability of art to the needs of the time, but this adaptability is decidedly not passive. Quite to the contrary, the more actively and creatively the artists go on discovering, the more dynamic will be the adaptability of art, and the stronger will be the response. In a situation where life is moving on, developing, undergoing reform and opening up, this adaptability changes with each passing day in a blaze of color. It is constantly attracting and testing the artists.

The years 1984 and 1985 were glorious and exciting years for the television industry. The screening of programs like "Voiceover of a Woman Reporter," "News Revelation," and "New Star" demonstrated both the political fervor and profound ideology of the television artists. "News Revelation" was nothing like the run-of-the-mill stuff. It began with a series of shoots with matching sound and picture to highlight the producer's intention to announce the birth of new concepts after the 3d Plenary Session of the 11th CPC Central Committee. The sound of the computerized Chinese subtitle typewriter symbolized the new rhythm of the contemporary society. The train rumbling into the distance reflected the image of China in the new period. Blending journalism, documentary, politics and philosophy into a single



program, it provoked a brainstorm of unprecedented dimensions across the small fluorescent screen. You may argue that its views were too hard-hitting, that the contradictions and conflicts reflected were not well-grounded, that the images were not all that vivid or three-dimensional, but you cannot but be moved by its imposing power and roused by the churning tides of the reform of our time.

"Voiceover of a Woman Reporter," on the other hand, fully demonstrated how sensitive television artists are to life and how incisive is their depiction of life. Art lagging behind life is a "universal truth" recognized by most people. However, "Voiceover of a Woman Reporter" seemed to be an amazing exception to this rule. We had just read a positive report in the day's paper about reform in an undergarment general factory under the leadership of the department in charge. That evening, we saw on the television screen a dramatized program which vividly described the achievements of this reform as well as the images and mentality of the characters amidst the changes. In terms of the relationship between art and contemporary life, it had in fact attained some kind of breakthrough. The key to the attainment of this valuable breakthrough lies not in whether or not there is access to raw materials, but in the artists' sensitiveness, enthusiasm and sense of responsibility and their creative power to quickly cast them into an artistic form. If we say that the above two productions excelled in terms of their atmosphere, keen perception and novel ideas, then the play "Heading for a Distant Land" owed its success to its profound thoughts. It was a play so serious it made you cry and so profound it gave you much food for thought. The acute conflicts between reform and traditional ethical values forced the protagonist Zhou Mengyuan onto a tragic road. What it held in store were momentous historic conflicts, the inevitable historic throes of reform, not personal grudges. Zhou Mengyuan's success in reforming the enterprise and his failure in making interpersonal readjustments not only revealed the joys and sorrows of contemporary reformers but served as a lesson and encouragement to our healthy promotion of the reform.

The screening of "New Star" once again demonstrated the preference for the reform theme at a time of changes. When the literary circles entered a period of relative tranquility, the emergence of "New Star" came as a flash of light across the dark sky. The crowds of viewers with their eyes glued to the fluorescent screen and the heated discussion about Li Xiangnan after the airing of the program once again made one feel the great impact of "the spirit of the time" and "the sentiments of the time." With vivid images and flaming passion, this play exposed the chronic illness of real life. The image of Gu Rong made a deeper impression than any similar characters of the past because it was set against the group portrait of bureaucrats. It was through the profound revelation of the typical environment of the bureaucratic community that the image of Gu Rong could achieve such a profound depth.

In this television drama, the image of Li Xiangnan was obviously too idealized. The author's concept of "strong man politics" also had the side-effect of making the protagonist look like the "incorruptible and wise judge" or "savior." We must see that the conflicts in the head of the author were in fact a reflection of conflicts in reality, and that these kinds of creative works with their merits and demerits often pave the way for fully developed individuality. Come to think of it, many works with reform as their theme have not been favored by the time precisely because they lacked individuality. We should therefore appreciate all the more the efforts made by "New Star" in achieving typicalness and individuality.

The art of television drama in the new period takes "reform" as its main theme. On the one hand, it places greater emphasis on subject matters, themes and images that directly reflect life. On the other hand, it lets the spirit of the time, that is, "changes," run through all kinds of subject matters to produce a rich and harmonious symphony. The mission of art lies in the affirmation and constant pursuit of beauty. Its inner spirit is invariably bound up and interlinked with changes in life.

Thus, while we see many works remaining at the stage of "moaning and self-pity," "There Is a Young Man," with its positive and optimistic outlook, surpassed the "theme of the wounded" and showed how contemporary youth woke up from a state of perplexity, thus reflecting the progress of the time. While many works found contentment in describing how the juvenile delinquents took a wrong step in life and in empty appeals for understanding, "New Shore" dug into the unique beauty of the spiritual world of the protagonist Liu Yanhua and showed the touching inner strength of self-transformation. By combining the spirit of the time with the description of the mind, we can also show the strong appeal of new life. The dramatized series "A World Lost and Found" which was set against the background of a part-work, part-study school showed within a fairly wide social space the complicated struggle and persistent efforts made by people who were recovering from their wounds, trying to restore the revolutionary traditions and greeting their new life in the period of setting things right. What ran through the whole play and touched the hearts of the viewers was precisely its lofty spirit of the time, the spirit of changes. "Tonight There Is a Snowstorm" which we can still remember so clearly was on the rather hackneyed theme of "intellectual youths." Through profound reflections, it remolded the image of "intellectual youths" and reassessed those bygone days of distress. Under the constraint and impact of the snowstorm, they bared their complicated yet noble souls. Although Pei Xiaoyun tripped and fell in a night of snowstorm, her idealistic spirit of devotion no doubt was linked with the aesthetic needs of the new time. The much acclaimed "Triumphant Return at Midnight" could arouse sympathetic response primarily because it demonstrated in fairly great detail how the intellectual youths who had enough of tribulations went through the tortuous course of life and of their spiritual journey and



ultimately became a vital new force in defending the motherland and building the four modernizations. In this generation of new people, the spirit of revolutionary heroism was passed on and further developed. The images of the protagonists were in fact the miniatures of young people of the new period who constantly strive to improve themselves. Evidently, as a new development of the "intellectual youth" theme and a portrayal rich in historic perception of the new life of the "intellectual youth," it echoed the life of the time.

The above-mentioned works may have their own characteristics—different subject matters, images, angles and styles, but it is obvious that they all owe their strength primarily to the developing and changing spirit of the time.

Among the many adaptations from famous works, "Four Generations Under the Same Roof" won the hearts of millions of viewers with its successful portrayal of typical national characters, rich and vivid expression of the national style, and its concentrated transmission of the unyielding national spirit. Among the long dramatized series on contemporary life, "Snowy Wilderness" profoundly revealed, through the twists and turns of Wu Qiujiang's love life, the obstruction posed by the sediments of traditional culture to man's genuine emancipation. Even "new people" who have stood up as a result of economic changes have to through a tortuous course if they want to achieve their own spiritual emancipation. Employing this kind of images and ideas, the play elevated the general theme of social criticism to the high plane of cultural criticism and achieved a spectacular success. "The Sun Rises Here," set against the background of opening to the outside world and reform, chose to reflect the slight reverberations in the heart of the heroine in the face of a new and modernized kind of life rather than the tense and hostile external conflicts. The unspoken desires and the slight lamentations made her the most sensual and the most thinking person in the whole play. As Chekov said: These thoughts created by living images are undoubtedly of greater aesthetic and cognitive value. Through the billows in the heart of this village girl, we can see that the policies of reform and opening the country to the outside world have struck deep root in the hearts of the people. It is only natural that this play has an important role to play in the choice of the time.

The needs of the time and of the viewers for art are many and varied. This explains why "Nurhaci" which truthfully portrayed the protagonist in a three-dimensional way and overstepped the nationality constraints was well-acclaimed by the viewers. Even "Dream of the Red Chamber," which actually had much to be desired ideologically and artistically, was followed with interest and was favorably received because of its serious creative approach and its courageous attempt at presenting China's greatest classical novel on the fluorescent screen.

If we take an overview of the development of television art during the new period and try to discern the choice of the time for television drama, we may discover that the creative approach of realism obviously played a dominant role. This is not at all surprising. To make a clean break from "leftist" mistakes and from the literature and art of "deception" and "fraudulence," literature and art of the new period must with truthfulness and sincerity restore its flesh-and-blood ties with the time and with the people. Since the new period is a period when the old is superseded by the new and when we are confronted with complicated social contradictions, we need not only passion but also scientific rationality in our action. Our untiring quest also lies in understanding and remolding society; in understanding ourselves and our own beings so as to remold ourselves and our own beings. Realism is characterized by its truthful, historical and specific portrayal of life and of society. Through typical examples and the medium of "aesthetics," it can fully bring into play its cognitive functions. Sensitive artists with unique observations may, by employing the method of realism, more quickly establish dialogue and ties with the masses. Through this channel, the masses can understand them more quickly as well as better. Successful television dramas like "Trifle Matters of Mortal Folks," "New Shore," "Wasted Years," "Heading for a Distant Land," "Triumphant Return at Midnight," and "Snowy Wilderness" all stood as testimony to the victory of the method of realism in creative writing.

Artists have a sense for contemporary life and draw from it its raw materials, characters and ideas to form the flesh and blood of their creative works. However, art cannot be art if it is divorced from specific creative methods, that is, the unique form of artistically grasping the world. The changing spirit of the time cannot but leave a rich and colorful aesthetic imprint on the many and varied search for "form." Thus, alongside the above-mentioned creative activities which emphasize the carrying forward and deepening of the tradition of realism, we also see that a number of creative attempts at exploration, that is, efforts to strive to borrow and assimilate from other artistic methods of expression on the basis of realism, have also achieved gratifying results and were given the seal of approval by the time. For example, television dramas like "The Sun Rises Here," "Hippocrate's Oath," and "Hamlet's Melancholy" gave the viewers an entirely new impression. No doubt the aesthetic concepts of these creations have not departed from the soil of realism. In terms of techniques, however, they have given greater scope to the characteristics of audio-visual art and drawn more heavily from new forms of expression like fantasy, symbolism, metaphors and psychoanalysis to produce a new aesthetic effect on the viewers. The elaborate composition and visual beauty of "Auntie Dan," the sharp contrasts and meaningful metaphors in "The Sun Rises Here," the terse impressionistic technique used in "Hippocrate's Oath," the absurdity of "Hamlet's Melancholy" and the mild and elegant touch of "The Balcony Enveloped in Fog" all left the viewers with a deep impression. The significance of these artistic

explorations should not be underestimated. They are also the product of the time. With the development of contemporary life and of creative practice, many television artists have gradually come to realize that their artistic expressiveness and creativity would be fettered if they remained at the stage of objective depiction. As a result of the strengthening of their subjective consciousness, the creative artists are no longer content with ordinary "reproduction" of actual life. With the employment of artistic techniques of television production, they hope to give greater scope to their creativity and clearly and distinctively convey their subjective thoughts and personal feelings through their creative works. Although this shift of emphasis from "reproduction" to "expression" is still at its preliminary and exploratory stage and its influence is still relatively small, it is worth noting and should be encouraged. This is of great positive significance to the constant enrichment of the means of expression of television drama, to the effective and diversified reflection of rich and colorful life and to satisfying the aesthetic requirements of viewers of different strata of society. Of course, "reproduction" and "expression" are just as good; they are neither absolute opposites nor incompatible with each other. As creative methods and means of art, they have their respective emphasis and can be blended when necessary. They are only defined on the basis of what they express and the creative individuality of the artists. In this respect, artists have an entirely free choice.

The creation of television drama in the new period not only has an effective role to play in society, but has shown marked progress in terms of its own exploration and development. In terms of the form and means of expression, it has given full scope to the characteristics of the art of television drama, developed its strong points while dodging the weak ones, and boldly made attempts to turn disadvantages into advantages. There is quite a lot of successful experience worthy of summing up.

Taking advantage of conditions made available by modern science and technology, the art of television drama draws on the techniques of music, painting, films, drama, and other forms of art to make itself highly compatible. When the need is there, creative artists would draw on the techniques of other fields of art and digest what has been assimilated to produce something of their own. The many and varied forms of art have greatly enriched the means of expression of television drama and laid a good foundation and condition for television artists to go on creating. While it is true that "The Sun Rises Here" owed its success to its choice of theme, a more important factor is that in terms of art, it had not only retained the documentary style of newsreel while blending in the techniques of characterization and contrast, but had absorbed the techniques of plot and structure as used in drama. This kind of combination and blending of different forms of art was what gave this television drama its unique charm which won the acclaim of so many viewers.

Having a strong documentary nature is one of the major advantages enjoyed by the art of television drama. Because dramatized television series take a relatively short time to produce, they are able to quickly reflect life in reality and forcefully intervene in life, and in so doing pushing forward the currents of life. In defiance of all kinds of resistance, the producer of "Voiceover of a Woman Reporter" cheered the reformers, lent effective support to the momentum of reform and the policy of opening up, and promoted the rejuvenation of people's concepts. "New Star" received an unexpectedly strong response precisely because it promptly and profoundly criticized the bureaucratic malpractices in political life both within and outside the party, warmly praised the young cadre Li Xiangnan who devoted himself to innovation, and promptly reflected the aspirations of the masses.

Family viewing is another feature that cannot be overlooked in the development of the art of television drama. Because of this characteristic, television drama can take the form of long or short series, or large or small productions. This offers a favorable condition for the unhurried release of lengthy pieces, a condition not enjoyed by films. Thus, classical works of Chinese or foreign origin, like "Dream of the Red Chamber" and "Four Generations Under the Same Roof," could be shown on the fluorescent screen without difficulty, while short pieces like "Under the Hibiscus Tree" and "Who Is Mo Yu" could find their way into each and every family. To suit the taste of viewers of different strata, there must be television dramas of diversified contents and forms. As the environment of family viewing is casual and relaxed, television dramas in general must be entertaining, full of suspense, have a strong story line and characters whose fate the viewers could feel concerned about, and address certain "issues." In view of this, television artists have new and bigger tasks ahead of them.

It is already a proven fact that through their constant groping, television artists have come to see the characteristics of the art of television drama more clearly and have mastered the techniques involved. In the course of artistic innovations, breakthroughs have constantly been made in traditional understanding. For example, it has always been held that the small fluorescent screen is only suitable for medium and close shots and close-ups and for household and neighborhood settings, but not for grandiose scenes. However, the artistic practice of television dramas like "Triumphant Return at Midnight" and "Nurhaci" made it plain that an equally brilliant effect could be reproduced of grand scenes provided that proper arrangements were made. The successful portrayal of the oath-taking rally under the army flag, the farewell scene at the cemetery and the triumphant return in the play "Triumphant Return at Midnight" are convincing proofs. This shows that the search for artistic means knows no bounds. New contents will invariably shatter the shell of original forms. The grasping of new possibilities means in fact the opening up of new realms of expression. In art, what to express and how to express

are equally important aspects. Without the above-mentioned scenes, the artistic achievements of "Triumphant Return at Midnight" would have been very much reduced.

Looking back over the development of television drama in the new period, we see great achievements, but we also see quite a number of noteworthy problems. Problems with the system of administration and the expansion of the contingent of creative artists aside, the more salient problems in terms of artistic creation still lie in the much discussed areas, namely, how can we grasp the pulse of the time, go deep into the reality of reform and opening to the outside world, and reflect our great era with precision and vividness. We should admit that it is by no means easy to precisely grasp and reflect this fast-changing reality. In fact it is a formidable, even risky task. However, television artists who cherish life and feel a sense of responsibility and sense of mission toward the people have pressed forward in the face of difficulties and have presented the people with many new works on the theme of reform. Compared with the rich and colorful practice of reform, the number still seems small. The time and the people have ardent and strong expectations of the television artists. Television artists who make it their task to reflect the spirit of the time will consciously try to resolve the problem of showing concern for reality and going deep into the reality of life. In so doing, they will also show concern for the quality of their artistic creation. There will be a new look in all aspects, from script writing to shooting and production. We must fully understand that without good scripts, there will not be any good television dramas. While paying attention to the characteristics of television art, we must not overlook the fundamental and essential work of script writing. Good scripts are an important prerequisite for successful television dramas. Many television dramas turned out to be flops because they had bad scripts. Many sloppy scripts which showed a serious departure from life could have been abandoned before shooting actually began. For a long time to come, there is unlikely to be any fundamental changes in the situation where most television dramas are adaptations of literary works. However, we must start working on ways to attract writers and playwrights to write more television scripts and train television scenarists as quickly as possible. In addition, efforts must be made to strengthen the theory of the art of television drama and actively develop television review. These are important measures to improve the quality of television drama and put a stop to sloppy productions. The aesthetic characteristics of the art of television drama and other issues have already become matters of public concern. Theoreticians and television artists engaged in creative work have unfolded heated discussions on these issues. These discussions will be conducive to the improvement of the quality of television drama. The launching of television review by professional critics and the masses will help raise the standards of artists involved in television dramas and improve the aesthetic judgment of the viewers. Of course, these reviews must give full expression to the

"double hundred" policy. Different views, schools and styles should be allowed free expression, and each person should be allowed to air his own views and engage in free discussions. Only in this way will our television dramas truly flourish and develop.

A fundamental reason for the increasing prosperity of television drama in the new period is that while the policies of reform and opening to the outside world implemented since the 3d Plenary Session of the 11th CPC Central Committee have emancipated people's minds, they have also emancipated the productive forces of art. The surging tide of reform and the fervent reality of reform are providing the art of television drama with an inexhaustible source for creation. The fact that television artists are consciously adhering to the orientation of "serving the people and socialism" proves that our contingent of writers and artists is a contingent with political awareness and a sense of responsibility. In terms of artistic creation and expression techniques, we are free to choose and create a rich and colorful scene, but we must have a common understanding and make joint efforts on such aspects as the principal subjects of expression and basic audience. In other words, we must pay attention to the foundations of life, go deep into the reality of life, improve people's artistic qualities, strive to depict socialist new people, and always bear the masses in mind. The study and inheritance of the legacy of traditional culture and the borrowing and assimilation of foreign literary and artistic theories and techniques are two areas which cannot be overlooked in the creation of television drama, although they cannot take the place of our own creative work. Without creation there is no art. We must, under the guidance of the Marxist world outlook and methodology, do a good job of carrying forward and borrowing and, proceeding from the needs of our country, nationalities and time, strive to flourish and develop the socialist art of television drama. The art of television drama has made full use of modern science and technology and assimilated the modes of expression of other forms of art. It also has the support of a huge audience. On this occasion when reform is surging forward with great momentum, television dramas will no doubt have the broadest of prospects amidst the calls from life and with the expectations and support of the people.

**A New Subject for Cadres' Theoretical Education**  
*HK280337 Beijing HONGQI [RED FLAG] in Chinese*  
*No 1, 1 Jan 88 pp 40-41*

["Short commentary"]

[Text] In the new year, a new subject for cadres' theoretical education for party cadres at all levels is about the basic theory and line for the initial stage of socialism on the basis of continuously and profoundly studying the report to the 13th CPC Congress.

The basic theory and line for the initial stage of socialism, which was put forth for the first time in the report to the 13th CPC Congress, has substantial content. On the basis of summing up in an all-round way the experience of building socialist modernization in China over the past 30-odd years, and particularly in the past 9 years, it recognized China's most essential national condition—that China is now in the initial stage of socialism; formulated the basic line with one center and two basic points as its main content; raised an important view that developing social productive forces is the fundamental task for socialism, reform is an important motive force for developing socialist society, and opening up to the world is a prerequisite for building socialist modernization; and expounded a series of major theoretical and policy problems in China's economic construction, economic structural reform, political structural reform, and strengthening party building in reform and opening up. Through the study, we will deepen our understanding of the party's line, principles, and policies since the 3d Plenary Session of the 11th CPC Central Committee, further enhance our national morale, work hard, and fight to build socialism with Chinese characteristics. Conducting education about the basic theory and line for the initial stage of socialism is a restudy and reeducation of Marxism and socialism, a requirement for developing China's social productive forces at present, a requirement for deepening reform and further opening up to the world, and a requirement for achieving socialist modernization.

Conducting education about the basic theory and line for the initial stage of socialism is the continuation and deepening of the study of the report to the 13th CPC Congress. The report put forth all the arguments based on the initial stage of socialism, with upholding the four cardinal principles and reform and opening up as the main part. To develop the study of the report to the 13th CPC Congress gradually and in a down-to-earth manner, we must, in view of cadres' practical ideas and ideological understanding and in connection with the study of Comrade Deng Xiaoping's works, the relevant works by Marx and Lenin, and important central documents, thoroughly study one by one all important problems expounded in the report to the 13th CPC Congress. Many theoretical views put forth in the report to the 13th CPC Congress reflect the deepening of our understanding of socialism, but this is not the end of it. Along with the gradual development of reform and economic construction, more new problems will arise gradually and we should, therefore, continue to explore and blaze new trails. For example, economic structural reform calls for gradually setting up a new system of planned commodity economy. On this basis, we should invigorate enterprises owned by the whole people according to the principle of separating the ownership of an enterprise from its right of management; accelerate the pace of establishing and nurturing a socialist market system; gradually improve the macroeconomic regulation system with stress on direct management while invigorating enterprises and enlivening the market; and continue to

develop various economic elements with public ownership as the main form and practice various distribution forms and policies with distribution according to one's work as the main form. These questions were put forth in the report to the 13th CPC Congress in principle, but need to be further understood and studied in theory and to be gradually put into practice. This shows that conducting education about the basic theory and line for the initial stage of socialism is a necessary thing and an inevitable development in the study of the report to the 13th CPC Congress.

Conducting education about the basic theory and line for the initial stage of socialism is also a continuation and deepening of cadres' theoretical education over the past years. Since 1984, in order to meet the needs of reform and construction, about 4 million cadres throughout the country have systematically and in a planned way studied Marxist philosophy and political economy, two courses concerning basic problems in scientific socialism and in China's socialist construction. In connection with the party's central tasks in different periods, they also continuously conduct education in the party's important documents, line, principles, and policies, achieving good results and laying down a solid foundation for conducting education on the basic theory and line in the initial stage today. The report to the 13th CPC Congress marks a big leap in the party's understanding of socialism and has created important conditions for the vast numbers of cadres to completely and systematically study and grasp the theory on building socialism with Chinese characteristics. We should and are absolutely able to bring the main contents of the two courses concerning scientific socialism and the basic problems in China's socialist construction into line with education on the basic theory and line for the initial stage of socialism; upgrade the level of the study of these two courses to the new height of the spirit of the 13th CPC Congress; and integrate the study of the basic theory with the study of the party's line, principles, and policies. This is a new subject for cadres' theoretical education and also an inevitable result of the development of cadres' theoretical education in the past few years.

To conduct this education, we must firmly and unswervingly implement the principle of integrating theory with practice, and better integrate the basic theory with China's construction and reform, and with practical conditions on all fronts and in all localities, thus making the basic theory more purposeful and convincing. We must integrate theoretical education with theoretical exploration and use the principle and method of the basic theory and line for the initial stage to study and probe new problems and laws in the modernization drive, reform, and opening up. We must integrate this education with the building of a contingent of Marxist theoreticians, rely on that contingent to conduct the education, and continuously consolidate, upgrade, and expand the contingent of Marxist theoreticians through this education.

**How To Understand and Correctly Recognize the Fact That China Is in the Initial Stage of Socialism Is the Fundamental Basis for Formulating and Implementing a Correct Line and Policy**

*HK300752 Beijing HONGQI [RED FLAG] in Chinese No 1, 1 Jan 88 pp 41-42*

[Article by Zhang Qihua [1728 0796 5478]]

[Text] The report to the 13th CPC National Congress points out: Correct understanding of the present historical stage of Chinese society is the essential basis for formulating and implementing a correct line and policy. How should we understand this?

First, in formulating and implementing a correct line and policy, we must take a correct understanding of China's national situation as an objective basis. The 13th CPC National Congress reiterated that China is now in the initial stage of socialism. It also made a systematic exposition on the theory of the initial stage of socialism. This is an important achievement we have made through our arduous explorations in both theory and practice over the past 9 years, showing that our party has gained deeper understanding of China's national situation. Since the 3d Plenary Session of the 11th CPC Central Committee, proceeding from China's real situation and on the basis of setting to right things that had been thrown into disorder and gaining a correct understanding of the basic national situation, our party has urged that we concentrate our strength on the modernization drive, take the development of productive forces as the center of our work, take the question of whether something is favorable to the development of productive forces as the starting point in considering all matters and the fundamental criterion in examining all our work, and strive to attain the objective of our struggle by three steps. A basic line of taking economic construction as the center, adhering to the four cardinal principles, and adhering to reform and opening up has gradually been shaped for the initial stage of socialism, and a series of basic policies and principles have been formulated for China's economic, political, ideological, and cultural fields. As a result of implementing these correct line, policies, and principles, some historical changes have taken place in China's political and economic fields as well as in social life. However, some comrades feel perplexed, for "more than 30 years have passed and we are still in the initial stage." Some comrades even hold that it is a kind of "retrogression" to say that China is still in the initial stage of socialism. The key problem in this respect is that they still lack clear understanding of the fact that China has not yet completely eliminated poverty and backwardness and is still an agricultural nation with manual labor as the basis, in which the agricultural population makes up more than half of the total population, the proportion of natural economy and seminatural economy is still rather great, and the commodity economy is not well developed, and that China's socialist economic, political, and cultural systems still

lack vigor and vitality. This situation is the objective basis for defining China as being in the initial stage of socialism and for formulating a correct line, policies, and principles. It is very important to gain a correct understanding of this. When discussing the initial stage of socialism, Comrade Zhao Ziyang said: How to make a clear exposition of this question in theory will play an important guiding role in giving play to the superiority of the socialist system, in working out correct reform schemes and correct strategies for our economic development, and in building socialism with distinctive Chinese characteristics.

Second, the affirmation of the initial stage of socialism has provided us with a theoretical basis for making a correct judgment on the main contradiction in and putting forth the central task for this stage. Only when we recognize that China is now in the initial stage of socialism can we firmly grasp the main contradiction and conscientiously implement the party's basic line, which is characterized by taking economic construction as the central task and adhering to the two basic points. For a rather long period in the past, since we did not have a good understanding of the present historical stage of Chinese society, class struggle was taken as the main contradiction in our society to the neglect of economic construction, and the development of productive forces was put in a secondary position, which brought great sufferings to both the state and the people. Since the 3d Plenary Session of the 11th CPC Central Committee, our party has reestablished the ideological line of seeking truth from facts. The first task for "setting to right things that had been thrown into disorder" was to shift the focus of work of the whole party to the construction of socialist modernization, no longer "taking class struggle as the key link." This is because in China, although class struggle will continue to exist for a long time in a certain sphere after the exploiting class is eliminated as a class, it is no longer the main contradiction of our society. It is wrong to ignore class struggle, which will continue to exist in a certain sphere, but we should never discard the scientific judgment on the question of main contradiction and central task because of this. The main contradiction in our society in the current stage is the contradiction between the people's increasing needs in their material and cultural life and the backward social production. This main contradiction decides that our fundamental task and the center of all our work is to develop social productive forces and endeavor to promote our economic construction. To resolve this main contradiction, our party has worked out the basic line of building socialism with distinctive Chinese characteristics in the initial stage of socialism. Only when we have correct understanding of the fact that China is now in the initial stage of socialism can we accurately grasp the main contradiction and resolutely implement the party's basic line.

Third, only when we have correct understanding of the fact that China is now in the initial stage of socialism can we keep a clear head, get rid of obstruction, and avoid

making both "leftist" and rightist mistakes while formulating and implementing the line and policy. China entered the socialist stage from a semicolonial and semifeudal society through the new democratic revolution and the "transitional period." It has been a natural development of history that China has taken the socialist road without undergoing the stage of fully developed capitalism. However, since the productive forces are backward and the commodity economy is not well developed in our country, it is inevitable that we should undergo an initial stage of socialism. If we are clear about this, we will be able to avoid both "leftist" and rightist mistakes. The ideological root of rightist mistakes is that some people hold that the fact that China has taken the socialist road without going through the stage of fully developed capitalism is a result of imposition of external political force rather than an inevitable development of history, and it goes against the laws of social development. For this reason, they have put forth some wrong expositions, such as "making up the missed lesson of capitalism." The ideological root of "leftist" mistakes is that some people, not realizing that the productive forces are still backward and the commodity economy is not developed in our country and that China is still in the initial stage of socialism, have urged to carry out reform in production relations and the superstructure in disregard of the actual situation of the development of productive forces. The "leftist" mistakes lasted for about 20 years since the late 1950's and led to a series of serious mistakes, such as the practices of the "communist wind" and "transition through poverty," "taking class struggle as the key link," and the launching of the "Great Cultural Revolution." As a result, our cause has encountered repeated setbacks. The formulation of the theory of the initial stage of socialism has clarified the historical orientation and position for developing socialism in our country at the current stage and provided us with a criterion for drawing a clear line of demarcation between the correct ideas and both rightist and "leftist" mistakes. With this criterion in hand and on the premise of adhering to the four cardinal principles, we have firmly grasped the central task of promoting economic construction and have eliminated many wrong things that have been added to socialism. We have promoted the development of many things that are favorable for the development of productive forces under the socialist condition and that were wrongly held to be things of "capitalism" in the past. For example, in economic structural reform, we have gradually established a basic frame of the new structure of the planned commodity economy and have vigorously developed the socialist commodity economy. In rural reforms, we have carried out the system of contracted responsibilities on the household basis with payment linked to output and overcome many long-standing mistakes, such as giving arbitrary and impractical directions in production, "doing things in a massive and unplanned way" while working, and "everybody eating from the same big pot" in distribution. In urban reforms, we have expanded the decisionmaking power of the enterprises and adopted various forms of operations to separate ownership from

operation. We have reformed the system of distribution in enterprises, adopted the system of the plant director assuming full responsibility, and established a socialist market system. At the same time, we have carried out resolute struggles against the ideological trend of negating the socialist system and advocating the capitalist system and bourgeois liberalization, ensuring the smooth progress of the four modernizations. We must always keep a clear head and must understand that China is still in the initial stage of socialism and take it as the starting point in pondering questions and working out policies. Only thus can we avoid both "leftist" and rightist mistakes.

### **Why Is It Said That Overcoming Ossified Thinking Is a Principal Task for a Considerably Long Time To Come?**

*HK290727 Beijing HONGQI [RED FLAG] in Chinese No 1, 1 Jan 88 pp 43-44*

[Article by Qun Yan [5028 6056]]

[Text] In his report to the 13th CPC Congress, Comrade Zhao Ziyang pointed out: "Since the old 'left' habits of thought are deep-rooted and since they are the main source of the obstacles to reform and the policy of opening up, the major task for quite a long time will be to overcome hidebound thinking." This inference has revealed the historical cause leading to ossified thinking, indicated the focus of long-term struggle against certain trends, and it also has important significance for adherence to the general principle of reform and opening up. This problem can be further understood from the following:

First, although China has scored great accomplishments in socialist construction over the past 30 years or so since the founding of the PRC, we must also see that we have committed "leftist" errors because of deviation from the correct ideological line since the beginning of the late 1950's. Such errors went to the extreme during the 10 years of internal disorder. The long-term effects of "leftist" errors have resulted in the gradual formation of a fixed and eventually ossified thinking that is deeply planted in the minds of some comrades. As is their wont, they place knowledge from books and instructions from higher-ups above all else and fail to pay attention to realities, and they are unable to apply the Marxist stand, viewpoints, and approaches to the solution of practical issues in China's socialist construction. Therefore, they have stubbornly clung to many things that obviously impede the development of the productive forces, that do not possess any socialist nature or qualities, and that are compatible with only a few specific historical conditions. At the same time, they have opposed as belonging to "capitalism" many things that are favorable to the development of the productive forces, socialized production, a commodity economy, and modernization. With their thinking ossified, some comrades are content with things as they are, remain in a rut, and lack creativity; they do not study new conditions or issues and follow the



beaten path in doing everything. For example, they regard the practice of contractual management of enterprises on lease as "pursuing private ownership," the system of factory director assuming sole responsibility for production as "abolishing party leadership," and the development of a "commodity economy" as "pursuing capitalism" as well as "the fountainhead of bourgeois liberalization." They even equate political structural reform with negating party leadership, and so on. These ossified views are mainly problems in ideological cognition; however, we cannot expect the shedding of ossified thinking to be completed overnight since it is the result of deep "leftist" effects. Practice over the past 9 years has shown that the 3d Plenary Session of the 11th CPC Central Committee signaled the fulfillment of the party's tasks of restoring things to order in its guiding ideas and played a great role in breaking with ossified thinking. However, it is by no means easy to thoroughly do away with the intervention of ossified thinking in specific work. With the stepping up and deepening of reform, we will inevitably meet with more new conditions and issues, and ossified thinking will inevitably be probed on a still wider and deeper scale. Thus, we can imagine that overcoming ossified thinking will be the main task for a considerably long period.

Second, ossified thinking is not only connected with long-standing "leftist" errors; we can trace their social and historical sources as well as their roots in ideology and cognition. For more than a century prior to the founding of the PRC, China had been a semicolonial and semifeudal society, in which small-scale production existed widely and which was dominated by a self-sufficient natural economy. China had long severed all intercourse with foreign nations. Its economy was extremely backward, and this inevitably resulted in such backward ideological concepts as following the beaten path and narrow-mindedness. After the victory of the new democratic revolution, China established the basic political and economic systems of socialism through the socialist transformation of the private ownership of production materials. China is still in the initial stage of socialism, and many backward traditional concepts cannot be thoroughly eliminated in such a short time. The ossified thinking we refer to is often linked to backward traditional concepts and is the indirect reflection of traditional concepts in reality. For example, the root cause of such ossified views as attaching importance to farming while suppressing commerce and the blind rejection of anything foreign can all be traced to traditional concepts. Historical materialism believes that social existence determines social ideology, while social ideology itself possesses relative independence. It is precisely because of this that ossified thinking is liable to become a habit and a fixed state of thinking, which become a lasting spiritual burden and bondage. It is often more difficult to change an ideological concept than a social system. This also shows from another angle that overcoming ossified thinking will be a long-term task. The

only solutions to this problem are persistent study and education and the continuous development of the productive forces, which is basic.

Third, the resistance to reform and opening up to the world comes mainly from ossified thinking, and the long-term nature of reform and opening up determines that overcoming ossified thinking will be the main task for a considerably long period. Reform and opening are China's long-term basic state policy. In a certain sense, opening up to the world also falls into the category of reform. The purpose of reform is to change production relations and those links in the superstructure that are incompatible with the development of the productive forces, with the cocooning and ossified old structure replaced with a new structure that is full of vitality and vigor. In this way, the productive forces may be better developed under the party leadership and socialist system, and the advantages of the socialist system may be given full play. In the process of deepening reform, in order to change the old economic and political structures, it is necessary to change traditional concepts and habitual forces in connection with the old structures. Reform will meet obstacles from ossified thinking at every step in its progress, for ossified thinking involves not only some individuals, but the renovation of social ideological concepts. Practice since the 3d Plenary Session of the 11th CPC Central Committee has shown that when every reform measure was first proposed, not everyone was able to promptly grasp and approve it. That was actually a concept-changing process, which we all experienced personally. Comrade Zhao Ziyang pointed out: "Concepts that are divorced from realities and practice, outmoded, stagnant, and ossified still exist and seriously shackle the minds of some of our comrades. During the process of reform and opening up, it is imperative to continuously do away with the effects of habit and to break with outmoded, stagnant, and ossified concepts." This tells us that all comrades who take reform as their own responsibility should raise their consciousness and be prepared to fight against ossified thinking in their own minds as well as in society. It is rather difficult to predict just how long "the considerably long period" will be, for the question can only be answered in practice. Of course, when we say that overcoming ossified thinking will be the main task for a considerably long period, we do not mean that we can relax our vigilance and struggle against ideas of liberalization. Should any interference from the ideological trends of liberalization emerge during the process of reform, it must be dealt with in real earnest.

**Eleventh Lecture of Forum on Socialist Commodity Economy: Wear and Tear, Depreciation, and Renewal of Fixed Assets**  
400501431 Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 pp 44-47

[Article by Zong Han [1350 1383]]

[Text] I. Visible and Invisible Wear and Tear

Fixed assets are divided into two categories, namely productive and nonproductive fixed assets. The productive ones mainly refer to the means of labor such as machines and equipment, factory and other types of buildings for production. Among them machines and equipment usually accounts for more than 60 percent of the industrial fixed assets value. The status of fixed assets, particularly the scale of modernization of machines and equipment, is an important sign symbolizing the development level of social productive force. In the course of developing the socialist commodity economy, to give full play to the role of fixed assets has become a major issue which cannot be taken lightly in order to promptly replace and transform those worn-out and backward fixed assets.

When engaging in production, all units must proportionally equip themselves with a considerable amount of fixed assets. Once these fixed assets are put into operation, the process of wear and tear begins. These fixed assets will not suddenly change their physical appearance throughout their life, but their values will, in the wake of wear and tear, be gradually transferred to the new products they make. Whenever the fixed assets become seriously worn out and have lost their use value, we must replace them with new ones because they would have become backward in terms of technology and it will be inadvisable to continue to use them though they are physically still suitable for being used. This is called the replacement of fixed assets. This is the case for a set of equipment and the same applies to the fixed assets of an enterprise, a department, a trade and even to the national economy as a whole. The reproduction of society is both the consumption of fixed assets and a process of reproduction. In other words, the fixed assets are in a process where they are constantly worn out, compensated, replaced and have their reproduction expanded. An expanded scale of reproduction of society requires the scale of fixed assets to be correspondingly expanded. Consequently, the amount of replacement of fixed assets will also increase. In order to heighten the level of production techniques, we must correspondingly improve the quality of fixed assets.

There are two different types of wear and tear in the course of utilization of the fixed assets. One of them is called visible wear and tear (also called material wear and tear), in which the fixed assets have undergone physical changes due to utilization and the natural force. Marx pointed out: "There are two types of visible wear and tear. One of them is utilization which is like the wear and tear sustained by coins in their course of circulation, and the other type is nonutilization which is like a sheathed sword that gets rusty after being left unused. The wear and tear of machinery in the latter case is the result of the natural force." ("Collected Works of Marx and Engels," Vol 23, p 443) The visible wear and tear is determined by the quality of fixed assets, the extent of utilization, the operating and technical skills of workers, the maintenance work done to the equipment and so on. The more superior their quality is, the better, and the

higher operating skills the workers have, the better. When we have made good arrangements and reduced as much as possible the amount of time that the equipment is left idle, the amount of visible wear and tear would be minimized. Otherwise, it would keep rising. Therefore, in order to give full play to the role of fixed assets and reduce the amount of visible wear and tear, we must, in addition to stressing the purchase of technologically advanced, economical, appropriate and good quality fixed assets, improve the quality of workers, strengthen our repair and maintenance service to equipment and use the fixed assets in a scientific and rational way, which is of great importance.

The other type is called invisible wear and tear (also called mental wear and tear), that is the depreciation of fixed assets as a result of technological advancement. The primary functions of fixed assets may remain unchanged. However, their values will drop if the following situations take place: 1) Because of the improved labor productivity, fixed assets having the same technical properties can be produced in a cheaper way; 2) the original equipment is challenged by new technology and new equipment so that it will become inappropriate to continue to use the equipment, thereby shortening the use life and being scrapped at an early date. The reason that fixed assets depreciate is because their value is "determined by the necessary labor time required by their reproduction or the reproduction by better machinery" rather than that "by the actual materialized labor time." ("Collected Works of Marx and Engels," Vol 23, p 444) For instance, the cost of producing a set of equipment which originally cost 1 million yuan is now reduced to 600,000 yuan. Though its use value remains unchanged, its value is cut by 400,000 yuan. This is the first type of invisible wear and tear. If a new equipment with better performance has been developed, to continue to use the original one will cause losses. That equipment must therefore be scrapped at an earlier date, which is the second type of invisible wear and tear. If one continues to use it instead of scrapping it, he will suffer certain losses compared to the result of utilizing the new one, which is also the second type of invisible wear and tear.

The invisible wear and tear is the manifestation of technological advancement, as well as an important factor promoting technological advancement and social development. In a capitalist society, capitalists must adopt new technology and constantly replace their fixed assets in order to stand firm amid keen competition. A large-scale periodic replacement of fixed assets has promoted the development of both technological advancement and productive forces in these countries. In particular, over the past 2 to 3 decades, some Western countries achieved a rather rapid progress in technological advancement. Such kind of situation is closely related to their emphasis on invisible wear and tear and their practice of speeding up the replacement of their fixed assets.



Invisible wear and tear also exists in the socialist commodity economy. In the wake of the productive force development and technological advancement, the value of fixed assets is gradually dropped, which is an objective role of the reproduction of fixed assets. Take the X62W universal miller as an example. In 1952, its average cost was over 30,000 yuan and its selling price was 40,000 yuan. Later, the cost dropped because of technological advancement and the selling price fell to just below 20,000 yuan. Under these circumstances, one will suffer invisible wear and tear if he continues to use the original X62W universal miller. Furthermore, new technology and new equipment continue to be developed in the wake of such advancement. To adopt new technology and new equipment will bring about the practice of replacing and scrapping the old ones at an earlier date, which is the second type of invisible wear and tear. If the equipment is not promptly replaced and scrapped, the technological advancement will be hindered, resulting in a drop in the output volume despite the increase of input volume and a wasting of resources. For instance, compared to the normal level of power consumption, some old boilers, pneumatic machines and pumps used by China's enterprises consume more than 10 billion kWh of electricity each year because they are inefficient, consume more energy and are not promptly replaced. There are also many enterprises whose basic equipment is backward. They have seriously affected the varieties and quality of products available, and their unit product costs are well above the average cost of society. Such losses have become an enormous sum after accumulation over a long period. We must attach great importance to this kind of "invisible wear and tear." Over a long time in the past, China only got less output and poor economic results despite its increased investment. This is directly related to the fact that we did not promptly replace our fixed assets and paid no attention to the invisible wear and tear. We should from now on properly emphasize on the importance of this issue.

## II. The Value-Substitutes of Fixed Assets

In order to make the social reproduction keep on running, we must promptly replace those worn-out fixed assets. The realization of the replacement of our fixed assets means that we must adopt the practice of value-substitute and payment by substitutes. Value-substitute is the capital reserve for payment of substitutes, whereas the payment of substitutes means the replacement of material objects is an accomplishment of value-substitute. The two are distinguished from each other while they are interrelated.

Value-substitute is a precondition of replacement of fixed assets, and its aim is to prepare capital for the fixed assets replacement. In practice, value-substitute is realized by drawing capital from the fund. The primary function of depreciation is to ensure the simple reproduction of fixed assets.

Practically, there are a number of depreciation methods. The common one is called the "useful life method" in which the depreciation annuity is obtained by dividing the original value of a fixed asset by a projected useful life. For instance, if an item of equipment worth 1 million yuan is projected to have a useful life of 10 years, its depreciation annuity will be 100,000 yuan. But if we take into consideration the result of invisible wear and tear, the new projected economic life will be shortened to 5 years and the depreciation annuity will then be increased to 200,000 yuan.

In order to correctly calculate depreciation, we must highly emphasize the classified calculation of the physical life and the economic life of fixed assets. By understanding the physical life of fixed assets and annually keep a depreciation fund according to the level of wear and tear, we can correctly calculate the visible wear and tear. Furthermore, by correctly determining the economic life of fixed assets, we can estimate the possible losses arising from scrapping them at an earlier date and may thus keep a corresponding fund as reserves, which will generally reflect the invisible wear and tear.

In order to correctly calculate depreciation, we must also calculate the value of fixed assets in a scientific way. But how? Shall we base our calculation on the original value of the fixed assets or on the replacement value? If we base our depreciation on the original value, we shall recover the advance payment of fixed capital. But we cannot guarantee the compensation for the fixed assets under the circumstances where the price of fixed assets rises. The best method is therefore to keep a depreciation fund by basing on the replacement value. By doing so we can guarantee the compensation for such replacement value. Nevertheless, it is certainly difficult to correctly estimate the depreciation value of fixed assets years prior to their replacement.

We should understand thoroughly the functions of depreciation. Some comrades hold that since depreciation accounts for a small proportion in the production cost, it doesn't matter whether we have a large or small sum. In fact, only when we have correctly calculated the depreciation can we do the cost accounting correctly and can we guarantee the replacement of fixed assets. As this issue directly affects the socialist reproduction, we must by no means take it lightly. Depreciation is done by basing on the level of wear and tear of fixed assets, including the visible and invisible wear and tear. The depreciation amount should reflect such level and a corresponding depreciation fund should be kept. If the amount of depreciation fund is below the actual level of wear and tear, we shall be unable to guarantee the capital required for the replacement of fixed assets and shall develop false profits. But if the amount of depreciation fund is high above the actual level of wear and tear, we shall abnormally increase the production cost but cut the profits. These are unfavorable to our expanded reproduction.

Is it true that depreciation does not increase the production cost? Indeed, the proportion of depreciation is quite small in the production costs of some departments which require a large amount of hand labor. But this amount is very large and it has been on the increase among enterprises using a rather high level of technological level. At present, China's value of fixed assets as a whole totals hundreds of billions of yuan. If the annual level of wear and tear is 5 percent, the amount of funds for annual depreciation and overhaul will be 4 to 5 million yuan, which is by no means a small sum. If we do not correctly calculate or keep the funds, we shall be unable to correctly calculate the production costs or to provide sufficient capital for the replacement of fixed assets.

There were two weak points in our previous calculation method and the method of keeping the depreciation fund. First, the depreciation rate of fixed assets among the state-owned enterprises before 1978 was 4 percent. In other words, the average time for replacing fixed assets is 25 years. Second, all or part of the depreciation fund is delivered to the upper level and is mainly invested in capital construction. The compensation role of the fund is therefore not given play. This has seriously hindered the technological advancement and is the major cause for the aging of fixed assets in general and the poor economic results. We have now increased the depreciation rate after summing up our experience in 1978. The state-owned enterprises practice depreciation by categories. Taking into consideration the factor of invisible wear and tear to some equipment and instruments, these enterprises can now use their depreciation funds on their own, thereby creating conditions for speeding up the pace of replacing equipment. Now, the amount of funds for annual depreciation and overhaul spent by China's state-owned enterprises totals more than 50 billion yuan, accounting for almost half of their investment in capital construction. To spend this kind of money well and to use it to meet the financial needs of our urgent projects will help China speed up its pace of technological advancement.

### III. Payment of Fixed Assets by Substitutes

In order to realize the replacement of fixed assets, we must also do well in the payment by substitutes.

First, we should handle well the relations between the simple reproduction and the expanded reproduction, so as to ensure that the compensation fund will be used for the purpose of replacement. As the depreciation fund is kept annually, it will be some time later before a considerable amount of fund is accumulated for the purpose of replacing the fixed assets. Therefore, the depreciation fund is a kind of "submerge" fund while part of it may be temporarily used as accumulative fund. However, the depreciation fund is basically a kind of compensation fund whose function is to compensate for the worn-out fixed assets. We should therefore guarantee the replacement and spend our spare efforts on new construction. If the amount of depreciation fund is insufficient to cover

the increased price of fixed assets, the balance of such replacement should be made good by withdrawing part of the accumulated fund in order to guarantee the simple reproduction. Simple reproduction is a prerequisite as well as the basis of expanded reproduction. Only when the simple reproduction is done well can we smoothly carry out the expanded reproduction. The simple reproduction itself, which constantly carries out replacement, always includes factors for expanded reproduction. If we undertake new construction by using the depreciation fund and disregard the replacement and transformation of old enterprises, such enterprises will become more backward and the scale of capital construction will be enlarged to such a level that the loss will outweigh the gain.

As we did not maintain a sufficient amount of depreciation fund over the years, and the fund was not used to replace fixed assets, the problem of having aging fixed assets has become more serious. Statistics have shown that most of the major production equipment among China's large, medium-sized, and small enterprises is more than 10 years old. Of this, 23 percent is more than 20 years old. Only about 10 percent of the major industrial production equipment has performance reaching the general international level, while 18.3 percent is listed backward according to China's standards. Through the large-scale importation and promotion of advanced technology over the past 9 years, many enterprises have undergone great changes. But the net value of fixed assets among some basic industries such as metallurgy and machinery, as well as transportation, is still declining. During the Sixth 5-Year Plan, the quantity of fixed assets replacement and installation by these industries was unable to offset their own wear and tear. This has shown that to transform aged equipment and to speed up the replacement of fixed assets are tasks which are more urgent and important than new construction.

Second, the focal point of replacement must be placed on improving the modernization of production and the economic results. The replacement of fixed assets belongs to the simple reproduction. But it should base on the adoption of advanced technology and the improvement of economic results. We must by no means "restore the outdated patterns." On the replacement of fixed assets in the capitalist society, Marx pointed out: "Most of the means of labor are constantly replaced because of industrial advancement. They are therefore not compensated by their original form but innovative ones." ("Collected Works of Marx and Engels," Vol 24, pp 190-191) The technological advancement has been quickened and the replacement cycle has been shortened since the beginning of this century. Most of the replacement was achieved by adopting high technology. As the technological level of China is backward and its economic results are poor, we must focus on the adoption of advanced technology when replacing our equipment.

Judging from our present situation, the focal points of our replacement through the adoption of advanced technology are: 1) We should base on products when replacing and transforming our backward equipment. The replacement must serve the aims of boosting output value, increasing the number of varieties available and replacing the outdated products. 2) We should base on the reduction of consumption and cut down the production cost. In particular, we must use new equipment and technology which are able to reduce on a large scale the consumption of energy and raw materials. 3) We should adopt technology which helps improve the labor efficiency, reduce the labor intensity, as well as reduce the level of and prevent pollution. 4) We should make the work link to the reorganization of enterprises and industries, develop those industries, departments and products which are badly need by the national economy, and support the work of replacement and transformation undertaken by areas of key industries and remote and backward areas. Furthermore, we should take some special measures and promptly provide the advanced technology to those old industrial bases and industries whose technology is very backward.

Third, we should handle well the relations between global replacement and partial one, and stress on efficiency and more practical work with limited money. Global replacement is a major form of replacement of fixed assets. Any item of fixed assets must have its useful life. By the time such item is worn out, has lost its primary function, and it will neither be worthwhile to continue to use it nor be worth repairing it, we should replace it. The practice of treating the "repair of old things" as an equivalent of "thriftiness," and the thinking that the longer the life cycle the better, the higher frequency of repair the better are impractical. Whether or not we should replace all of the equipment mainly depends on the results of their usage. We must replace all when the equipment in question has lost its function, or its efficiency and consumption level have become very backward though it still functions well. Judging from the investment in the replacement and the period of investment return, it will be reasonable if such investment sum is small and will bring about improved efficiency and quick returns. We should also take into consideration the material conditions for such replacement, that is whether or not we can purchase the new equipment. There will no other way but to continue to use the old equipment if we cannot buy new equipment.

The other form is partial replacement. The parts in some equipment are worn out in a balanced way and when they reach a certain level the equipment in question must be replaced globally. But there are other types of equipment whose situation of wear and tear is different. The key parts of these types of equipment may easily worn out, but the equipment as a whole remains unchanged. This is also the case for an invisible wear and tear. For some types of equipment, this may be caused by changes in the principles and structure of production. For others, this only takes place in the key parts, in which

case just partial replacement can do. Compared to the global replacement, the advantages of partial replacement are: 1) It brings about efficient and quick results. The electrical control part of spot welders used by a body plant of the First Automobile Assembly Plant was so backward that it always interrupted the production and its maintenance cost was as high as 100,000 yuan per year. After replacing it by a programmable controller, the plant cut down the time of interruption to zero and the maintenance cost to 500 yuan. After liberation, the textile industry of Shanghai conducted two major transformations to the key part of spinning frame—spindle—and increased its spinning speed. All it spent was just one-third of the total amount for purchasing a replacement. 2) The enterprises which are utilizing such equipment are capable of replacing them on their own. Compared to global replacement, the partial replacement is relatively simple. Under the circumstances of not interrupting the normal production, an enterprise usually may replace its equipment by basing on its own efforts. However, there are still limitations to partial replacement and it is not a substitute of global replacement. Therefore, we should integrate the partial one with the global one and make use of them in the light of the actual conditions.

Fourth, we should create better conditions to provide more and better advanced equipment. Both the level and scale of replacement of fixed assets are subject to the available quality and quantity of equipment in society. Only when there are new fixed assets utilizing advanced technology can there be a quickened pace of replacement of fixed assets. Both the machine-building and electronics industries are the major sectors shouldering the responsibility in this respect. They should first speed up the pace of replacement of products and provide more and better products to society.

#### **Sociology and Political Science Should Be Studied as Independent Sciences**

40050143o Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 p 47

[Reader's letter from Lu Weihuai [0712 4850 2037] of QINGDAO RIBAO]

[Text] Comrade Editor,

Since the end of the 1950's, as our party was long engaged in political movements and simplistically understood the meaning of politics to be engaging in class struggle, socialist political science never became a topic for specialized study. As for socialist economics (also called the socialist component of political economics), there are now many people engaged in research on this, and many monographs have been written about it. However, we have not yet seen systematic research achievements in terms of socialist political science, and many people do not know what socialist political science involves. The following situation exists at present: In the politics specialty of the political departments of some

universities, the main contents are the three constituent parts of Marxism. Of these, political economics is also called the politics course. At the universities, those teachers who teach the three component parts of Marxism are all referred to as "teachers of the political class." As in the past, we have not made a conceptual distinction between politics and economics or between politics and ideology. In our actions we have often not distinguished between the party and the government. In the article "Promote the Institutionalization of Socialist Democratic Politics in China" which appeared in HONGQI No 21, 1987, the writer employed the term "political science" more than once. I feel that this is a good formulation. The article touched on many issues in socialist political science, such as leadership, democracy, the legal system, the personnel management system and so on. These are all important components which socialist political science should study. In the 38 years since the founding of the PRC, although we have achieved great success in theoretical research and in giving publicity to theory, two issues have long been neglected: The first is that sociology has not been studied as an independent science, and the second is that political science has not been studied as an independent science. Seen from the present situation, these are two major points which we should settle in the primary stage of socialism, and thus we should establish specialties for the study and teaching of political science and sociology. This is a requirement put to us by historical developments and we should pay it sufficient attention.

**People Who Stand Firm and Walk Straight at the Crossroads—On Reading the Short Story 'People at the Crossroads'**

40050143m Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 p 48

[Article by Ren Fuxian [0117 1318 0341]]

[Text] Most people have this aesthetic experience: After reading too many dazzling stories with incredible plots, they would like to read something simple and unadorned. It was precisely out of this mentality that I found that I could not put down the short story "People at the Crossroads" by Wang Zhen [3769 3308] once I started reading it.

This is a story about the experience of the district party secretary, Wang Hao, in the allocation of government quarters. Wang Hao had secured a two-bedroom flat for his second wife's son, an event which was to have serious repercussions. After his stepson had moved into his new flat, there was a fight over the flats and 12 of the 18 flats were occupied by force. Wang Hao eventually lost the election for deputy to the NPC. The events prompted Wang Hao to resolve after self-examination to maintain his integrity and to "do everything right" even if it meant that he and his wife would have to go their separate ways.

This is a very simple story, but its profound ideological contents can serve as a warning to all of us. If we examine Wang Hao's seemingly commonplace experience in securing government quarters from the high plane of "crossroads in one's life," we would be able to extract a philosophical theme from it. On the surface, there is nothing unreasonable about Wang Hao's efforts to secure a flat for his stepson. His stepson was the son of the late Director Chen of the municipal party committee's organizational department. "If any special consideration was given at all, it was given to the late Director Chen." It seems that Wang Hao even deserves credit for taking special care of the orphan of an old comrade. There is also nothing apparently wrong in the manner in which things were done or in the procedures followed. The flat was allocated by the accommodation group, in which Wang Hao was not a member. However, it is under the reasonable that one finds the unreasonable; and it is under the cover of nonparticipation that one finds his hidden selfish motives. He was obviously trying to obtain "legitimate" gains through the hands of others. Wang Hao got the flat he wanted, but he also lost a good deal in doing this. He lost his dignity, credibility, and prestige. Order in the office was also disrupted. There was a fight over the flats. As it turned out, those who assisted in the fight were all office cadres. In the subsequent election for deputy to the NPC, Wang Hao lost his bid surprisingly to Old Qin the cook. It was only then that Wang Hao began to wake up to his folly. After serving the people diligently and earnestly all his life, he found himself confronted with a choice: To submit to the endless, unreasonable demands of his second wife and stepson, or to go on working selflessly for the public interest. Is it not true that some of our cadres have slipped and fallen at the crossroads of their life and are caught abusing their power for private gains under the erroneous idea of "rights will be forfeited if not used before the expiry date"? We are ordinary people, and as such, we can hardly avoid making mistakes when lured by material benefits or hard pressed by mundane concepts in the family. The important thing is to come to our senses in time, stand up strong and act nobly.

In his depiction of Wang Hao's choice, the author tried to deeply reveal Wang's painful inner struggles rather than simply glossing over the whole thing. The stream and changes of Wang's thoughts were unfolded along with the development of events and changes in the environment and with the actualities of life. They are different from mere fantasies without objective actualities as their carriers. The story tries to reflect a complicated social mentality through an anatomy of Wang Hao's behavior. His embarrassment when putting forward his application for a flat at the standing committee meeting betrays his anxiety and uneasiness. When it was decided that the allocation of flats would be handled by the accommodation group and that the standing committee would not have anything to do with it, "he let out a sigh of relief," a sign that he harbored selfish designs in the way the flats were to be allocated. Confronted with external stimuli in the form of admonitions from his old

comrade-in-arms Liu Wenjing, the biting remarks from the masses, the unreasonable intervention by his second wife and stepson, the defense put up by the head of the accommodation group, Yang Lin, on his behalf, he found himself lost in an whirlpool of thoughts. He was sad, enraged and anxious at the same time. His complicated state of mind is vividly portrayed through descriptions of his inner thoughts and what goes on around him. The harsh reality of the fight over the flats and his defeat in the election have dealt him a heavy blow, awakened his conscience as a communist, and enabled him to make the correct choice at the crossroads of life.

The story has penetratingly exposed the corrupt practices in actual life and mercilessly lashed out at the erroneous ideas and actions of a small number of leading party cadres. However, through his artistic presentation, we can sense the author's ardent love for the party and for socialism. Rather than making sarcastic remarks about the erroneous ideas and actions of certain leading cadres as an outsider, the author has shown concern and anxiety for them and urged them to see the truth and come to their senses. While squarely facing the world, life, and the seamy side of society, the story also praises the bright and hopeful side of society, shows the progress of our society and the strengthening of the system of democracy, and highlights the strength of the majority of our party cadres and the masses in setting strict demands on themselves and seeking self-perfection in the course of resisting and overcoming unhealthy practices. Rather than making people feel dissipated, pessimistic and despaired, the story urges people to respect themselves, have faith in themselves, and to constantly strive to become stronger and better. Herein lies the author's aesthetic ideals, and the artistic reproduction of real life.

**Reform Enterprise Cadre System, Introduce Public Tendering in Selection of Factory Directors**

40050143n Beijing HONGQI [RED FLAG] in Chinese  
No 1, 1 Jan 88 inside back cover

[Article by Wang Zhongfu [3769 5883 1318], secretary of the Changsha City CPC Committee]

[Text] Since 1986, the city of Changsha has broken through the traditional model in which the methods used for managing party and government cadres were used for selecting factory directors (managers), and has used public tendering to select enterprise managers. This practice has produced fine results.

First, it has opened up a wider field in talent selection and broken through regional boundaries as well as professional boundaries. This has opened a new road in the socialization and marketing of talent selection. When the Changsha implemented public tendering for enterprises, over 2,000 hopefuls from all industries and professions and all areas and departments from within and outside the province submitted tenders. Every enterprise received tenderers, with the number of tenderers for each enterprise ranging from a few dozen to over 100.

Through an assessment of qualifications and preliminary examination, the number of up-to-standard tenderers was reduced to 1,000. Then after examinations, oral questioning and verification, the number of successful tenderers numbered more than 100 persons. In the selection process, relevant specialists, scholars, entrepreneurs, staff and worker representatives, responsible department leaders and comrades from organizational and personnel departments formed an assessment committee which carried out an overall examination and assessment of the qualities of the tenderers in terms of the requirements of entrepreneurs, and then selected those to be appointed. This has not only created conditions for equal competition among skilled persons, but has also done away with the former bad practices and habits of stressing qualifications and seniority, "inbreeding," pulling strings, using relationships and so on. It has effectively avoided the biases and subjective arbitrariness which can so easily occur in the selection of cadres, and eradicated the improper practices and bureaucracy which existed in personnel and cadre work.

Second, the factory managers who are selected through tendering take on the operation of the enterprise through competitive selection and they are intimately linked with the success or failure of the enterprise. The operators shoulder the task of handing profits and taxes over to the state as well as carrying out technological transformation. They also take on the risks of changes in the market and have a strong sense of duty and sense of crisis in of their responsibilities to the state and the enterprise. The change in the method of selecting factory managers has also brought changes in the concepts of staff and workers. When the staff and workers understand the factory manager, it is beneficial to improving the relationship between operators and producers and in strengthening cohesion within the enterprise.

Third, the implementation of the open tendering for factory directors involves first setting the contract base and the subsequent selection of the appropriate applicant. As the contract base in the open selection of factory directors through tender is produced through scientific estimates and competitive bidding, it has a certain advanced nature and rationality. The tendered enterprises have the growth of assets and results as a major factor in the assessment of the work achievements during the period of tenure of the successful tenderer. This means that the fixed assets of the enterprises are fully utilized, which speeds the pace of equipment renewal and this thereby further combines the interest relationships of the staff and workers of the enterprises and the individual operators with the growth of assets of the enterprise and its long-term development. It also avoids the problem whereby a factory director, in order to cater to the needs of a small number of lagging staff and workers, does not consider the enterprise's economic results and development reserves and instead seeks high bonuses and the distribution of material benefits and blindly expands consumption.

Using the method of open tendering in society in the selection of leading cadres in enterprises is a beneficial experiment in achieving the reform of the enterprise cadre system. However in practice there are still some problems which need to be further resolved. At present, an outstanding problem is that because of the restrictions of the cadre management system, the transferring of those factory directors who tender successfully meets all sorts of difficulties. Thus, there is a need to reform the present cadre management system, break through the departmental and regional ownership of cadres and promote the rational flow of talent. Further, in the situation where the old and the new systems exist together, it is widely indicated that it is difficult to run enterprises and difficult to operate as factory director.

After enterprises implemented contracted operations and instituted open tendering in the selection of factory directors, the operational mechanisms were improved. However, the full bringing into play of the vigor of enterprises is still restricted by external conditions and the factory directors who are successful in tendering still find it difficult to achieve a situation whereby "the heavens are high and the bird can soar." To this end it is necessary to do well in the coordinated reforms so as to create beneficial external conditions for deepening enterprise reform.

/06091

END